



Canada Life™

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2002 Annual Report

making a difference



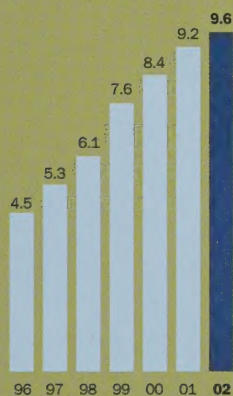
Canada Life Financial Corporation, established in 1999, is traded on the Toronto and New York Stock Exchanges. The principal subsidiary, The Canada Life Assurance Company, was founded in 1847 and is Canada's first domestic life insurance company. In our third full year as a public organization, we continued to be driven by our vision to be a world class financial services provider, delivering exceptional customer value and helping people achieve more, through the excellence and integrity of our people. On this strong foundation, we continued to meet our commitment to build a vibrant and profitable enterprise in the best interests of our shareholders.

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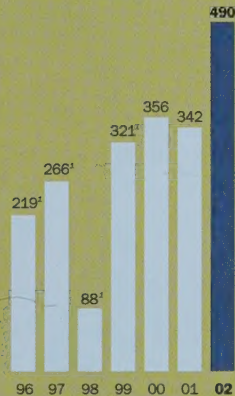
performance

Premiums and new deposits
(\$ billions)



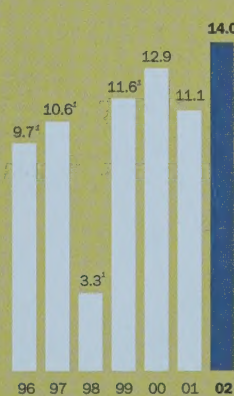
Compound annual growth rate of 12%

Common shareholders' net income
(\$ millions)



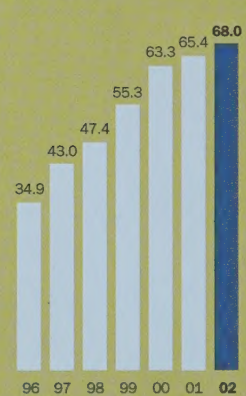
Common shareholders' net income reached \$490 million in 2002.

Return on shareholders' equity
(%)



Return on common shareholders' equity reached 14.0%

Assets under administration
(\$ billions)



Compound annual growth rate of 10%

¹ Pre-demutualization, see page 84 footnote 3

Financial Strength Ratings

A.M. Best A+ (Superior, 2nd highest of 16)

Moody's Aa3 (Excellent, 4th highest of 21)

Standard & Poor's AA (Very Strong, 3rd highest of 21)

Dominion Bond Rating Service (DBRS) IC-1 (Superior, highest of 5)

world class

"We have been operating in the United Kingdom for more than 100 years and have established ourselves as a solid company. Our team has remained fresh and open to new ideas and initiatives, responding to our customers' needs."

Stevie Byrne, United Kingdom

Christopher Lewis
United States

Patrick Garel
Canada

Joy Oxley
United Kingdom

Stevie Byrne
United Kingdom

Victoria Simpson
Ireland



A world class financial services provider. Our window on the world, Canada Life's talented and dedicated employees are Canada Life's unique competitive strength, leveraging their expertise and skills across markets and geographic borders. Their energy, enthusiasm and fresh ideas have driven innovation and helped Canada Life secure leadership positions in key markets such as group insurance in the United Kingdom, critical illness insurance in Germany and group creditor insurance in Canada.

customer value

"My philosophy is simple. Deliver a highly positive customer experience. One that inspires the same extraordinary service I would expect and appreciate."

Elizabeth Streetman, United States

Adrian Basaraba
Canada

Niki Crowhurst
United Kingdom

Sean McHugh
Ireland

Brendan Kennedy
Ireland

Elizabeth Streetman
United States



Delivering exceptional customer value. Our face to the customer, Canada Life's employees ensure we're an easy company for our customers to deal with, no matter what the location or product. Being accessible, flexible, dependable and responsive to customers, "doing it right the first time, all the time", is the essence of first class service and drives our ongoing focus on process and technology.

helping people

"Through the combined effort of the Company and staff, all stakeholders achieve more. This collaboration supports initiatives such as the United Way, the World Wildlife Foundation and the Canadian Olympic team."

David Wells, Canada

David Wells
Canada

Gurjit Minhas
United Kingdom

Stacie Ramsue
United States

Olga Keller
Ireland

Jennifer Medina
United States



Making a difference to the people we're in business to protect. Through tireless volunteer efforts of our employees, as well as corporate donations and sponsorships, people in need can count on Canada Life to lend a hand. Time and again, our people demonstrate generosity of spirit and commitment to fostering a strong community in a safe and healthy environment. We recognize that growth and cost-efficiency must be integrated with social stewardship, furthering advances in education and health care and celebrating achievements through sport and the arts.

integrity and trust

"At Canada Life, we recognize that our customers trust us with their financial future, and we continually strive to maintain this trust. Protecting our customers' interests is our number one priority."

Priyal Thakrar, Canada

Dave Brown
United Kingdom

Lorraine Brien
Ireland

Tim Kitagawa
United States

Kelly Hepher
Canada

Priyal Thakrar
Canada



Doing business with integrity and trust. Canada Life has grown on a foundation of trust, reflecting the conduct and values of the people who work here. Through our insurance and wealth management products and services, people trust us to safeguard their financial interests and to protect them in times of need that could be many years from now, fairly, responsibly, honestly, reliably and in a manner that is beyond reproach.

Dear shareholders,

David A. Nield

Chairman of the Board
and Chief Executive Officer

William L. Acton

President
and Chief Operating Officer



2002 was a landmark year for your Company, achieved through the expertise, dedication and hard work of our employees worldwide.

As a result of their concerted efforts, we achieved record profits and improved outcomes on all key performance measures, despite a weak economy, investor uncertainty, volatile equity markets and increased credit risk.

Compared to 2001, our bottom line earnings of \$490 million for 2002, as reflected in common shareholders' net income, grew 43 per cent. Our top line revenues, as reflected in premiums, premium equivalents and new deposits, climbed \$779 million or seven per cent to reach \$12 billion. Assets under administration rose four per cent to \$68 billion. Return on common shareholders' equity (ROE) was 14 per cent, within our target range of 13.5 per cent and 14.5 per cent, and above the 11.1 per cent reported for 2001.

Embedded Value of new business, a major indicator of the Company's vitality, advanced by 38 per cent to \$220 million or \$1.37 per share. Embedded Value of the total Company was up 16 per cent, to \$6.3 billion or \$39.28 per share at year-end 2002, stemming from acquisitions and accumulation of in-force value as well as effective management of tax and group wealth lines of business in Canada.

We maintained our focus on building a profitable organization serving the financial services needs of more than 10 million customers around the world. We gained prominence in many of our chosen markets, with an industry leading position in group creditor insurance in Canada; group protection in the United Kingdom; and critical illness insurance in Germany. We reinforced our top five ranking in new business market share in the Republic of Ireland and in Germany's broker unit linked market. We held our top 20 position in the group insurance business in the United States, and we continued to concentrate on expanding our group pension and life insurance businesses in Brazil.

We grew our business cost-efficiently and effectively, maximizing profitability through expense efficiency at all operating levels and functions. We cut costs and delivered on our reduction targets. General operating expenses were \$11 million or one per cent less than in 2001, after adjusting for the cost of the career sales force closure and an acquisition in the United Kingdom.

In particular, continued attention to technology, tax management and investment management contributed to our cost-efficient and effective operations.

We re-built and enhanced systems to meet our longstanding commitment to be a cost-efficient company that is easy to do business with. In 2002, we concluded a massive overhaul of five legacy administrative systems in the United Kingdom resulting from our acquisitions during the 1990s and reduced them to one platform. By year-end 2002 in Canada, new systems for group life and health insurance were in the final stages of completion. In Canada and the United States, we entered into a strategic third-party sourcing arrangement to coordinate systems operations in both countries. As well, we unified accounting systems and procedures across all of our Divisions.

We worked diligently to make our organizational structure more tax efficient, reducing our effective tax rate 10 percentage points to 21 per cent in 2002. The sustainable tax rate in 2002 was 26.5 per cent compared to 30.0 per cent in 2001.

In 2002, investment management of our \$30 billion bond and mortgage portfolio continued to achieve excellent performance in absolute and relative terms due to diligent research, disciplined controls and a diversified approach to analyzing risk. We had virtually no investment exposure to the major corporate disasters that shook markets and investor confidence worldwide. The quality of our bond portfolio remained high at an average A+ credit rating, consistent with 2001, and the quality of our commercial mortgage portfolio remained strong.

As we prepare to hand over the reins of control to our new owner, Canada Life is in good financial and operational shape, having delivered to you, our shareholders, growing value for your investment. Since we demutualized in 1999, the total cumulative return on your investment in our enterprise has been 126 per cent, while the S&P/TSX Composite Index declined two per cent over the same period.

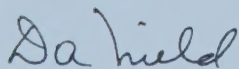
Looking ahead, Canada Life is embarking on a new course in our evolution as we prepare to integrate our Company with Great-West Life for an even stronger financial services enterprise.

Our employees are a key asset. The outcome of their skills and enthusiasm over the years, as part of a mutual organization and then a public company, can be seen in our continually improving financial results and growing shareholder value, and proves that our good people are adaptable to and thrive on change.

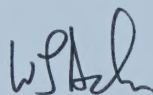
This employee commitment has been an integral part of the Canada Life tradition in the spirit of our founder, who created Canada's first domestic life insurance company to protect people in times of hardship and uncertainty through the benefit of life insurance – protection that today extends to health and wealth management.

Our employees, through their skills and loyalty, made 2002 a crowning achievement for Canada Life, marking the final successful chapter of the Company as an independent enterprise since its founding more than 156 years ago. On behalf of Canada Life's Board of Directors, we salute our employees and thank them for their significant contribution.

We also wish to thank our Directors for their support and guidance in this challenging business environment, characterized by ongoing change and accelerating consolidation. Their strong commitment and leadership have been instrumental in our continued objective to work in the best interests of our shareholders.



David A. Nield
Chairman of the Board and Chief Executive Officer



Bill Acton
President and Chief Operating Officer

Management's Discussion and Analysis

Canada Life Financial Corporation ("we", "us", "our" or "the Company") is an international financial services company with primary operations in Canada, the United Kingdom, the United States and the Republic of Ireland, and with subsidiaries and businesses in the Isle of Man, Germany, Brazil, Hong Kong, Macau, Bahamas, Hungary and Bermuda. Our core business is to offer products and services that meet our clients' needs for accumulation and preservation of assets in the form of annuity, pension and investment products; financial and investment management; and financial protection in the event of certain risks, including death, illness and disability.

This Management's Discussion and Analysis provides an opportunity to review the financial performance and condition of the Company for the year ended December 31, 2002 and to give some general indication of our expectations for future performance. Performance is reviewed both in total and for each of the primary business segments through which we manage the Company.

This report also describes the policies and procedures used to manage the risks related to the Company's activities. The Company must comply with the legal and regulatory requirements in all of the countries in which it operates. The primary regulator is the Office of the Superintendent of Financial Institutions, Canada. As a publicly listed company in Canada and the United States, it must also adhere to securities regulations and stock exchange requirements in each of these countries.

The Company's Consolidated Financial Statements are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). The Company manages its operations based on Canadian GAAP, and the discussion and analysis contained in this report are based on Canadian GAAP. Both changes in and a summary of critical accounting policies are included in this document. In addition, as a requirement of listing on the New York Stock Exchange, a reconciliation of certain Canadian GAAP financial information to U.S. GAAP has been prepared and is included in note 23 to our Consolidated Financial Statements.

This Management Discussion and Analysis provides management with the opportunity to discuss the financial performance and condition of the Company and, as such, may contain forward-looking statements about the Company, including its business operations and strategy and expected financial performance and condition. Statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or negative versions thereof and similar expressions are forward-looking statements. In addition, any statement that may be made concerning future financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future Company action, is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future events and are subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the insurance industry generally. They are not guarantees of future performance, and the Company has no specific intentions to update these statements whether as a result of new information, future events or otherwise. Accordingly, the reader is cautioned against undue reliance on these forward-looking statements. Actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company due to, but not limited to, important factors such as general economic and market factors, interest rates, equity markets, business competition and changes in government regulations.

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Overview

Financial Highlights

				2002 vs 2001	2001 vs 2000
(in millions of Canadian dollars except percentage amounts)	2002	2001	2000	% Change	% Change
Common shareholders' net income	\$ 490	\$ 342	\$ 356	43	(4)
Return on common shareholders' equity	14.0%	11.1%	12.9%		
Premiums, premium equivalents and new deposits	12,008	11,229	9,250	7	21
Assets under administration	68,003	65,425	63,257	4	3
Common shareholders' equity	3,774	3,238	2,892	17	12
Embedded Value	6,300	5,450	5,000	16	9
Embedded Value of new business	220	159	128	38	24
Ratio of Embedded Value to book value	167%	168%	161%		
MCCSR ratio ¹	202%	191%	197%		

¹ Minimum Continuing Capital and Surplus Requirements (MCCSR) is calculated in accordance with capital standards set by the Company's primary regulator, the Office of the Superintendent of Financial Institutions, Canada.

Common shareholders' net income of \$490 million increased by \$148 million or 43% over 2001. Excluding the \$85 million provision taken in 2001 for claims arising from September 11, 2001, net income was up \$63 million or 15% over 2001. This increase was primarily the result of growth in business, favourable mortality and morbidity experience, general expense efficiencies and a lower effective tax rate, and was realized despite reserve strengthening in the United Kingdom and significant decreases in global equity markets. The change in accounting policy adopted in 2002 whereby goodwill is no longer amortized as it was in 2001 contributed \$25 million to the increase in net income.

Return on equity for the year was 14.0%, within our target range of 13.5% and 14.5%, ahead of 11.1% reported for 2001 (13.7% adjusted for September 11, 2001) and ahead of 12.9% for 2000.

Premiums, premium equivalents and new deposits, as well as assets under administration, were up 7% and 4% respectively over 2001 reflecting the growth in our business, the impact of acquisitions completed during the latter part of the year, and the strengthening of the British pound and Euro against the Canadian dollar. *(For a summary of currency impacts on financial information, see page 44 of this document.)*

Embedded Value increased to \$6.3 billion in 2002, up 16% from \$5.45 billion in 2001.

MCCSR grew to 202%, primarily as a result of new capital raised and the growth in retained earnings. This ratio declined to approximately 197% after December 31, 2002 as a result of a business acquisition that was completed on January 1, 2003.

Business Acquisitions

We completed two business acquisitions during 2002 and a third on January 1, 2003.

On October 1, 2002, we concluded an agreement to acquire a significant block of group life and long term disability insurance business in the United Kingdom, and reinsured the risks on that date. Formal transfer of the business will occur after court approval, expected in mid-2003. For cash consideration of \$53 million, we acquired assets of \$822 million and liabilities of \$946 million. The acquisition added premium revenue of approximately \$70 million in 2002 with no significant impact on net income for the year. The acquisition made us the market share leader for group insurance in the United Kingdom and is expected to be accretive to earnings in 2003.

On October 31, 2002, we purchased a leading provider of preferred term life insurance products in Canada. For cash consideration of \$58 million, we acquired assets of \$26 million, negative actuarial liabilities of \$24 million and other liabilities of \$7 million. The transaction is projected to achieve economies of scale for the Canadian Division and to be accretive to earnings in 2003.

On January 1, 2003, we completed the acquisition of the German life insurance operations of a significant international insurer. Cash consideration was \$205 million. This acquisition makes Canada Life Europe one of the top five companies in the German broker unit linked market and the German market leader in critical illness insurance. The acquisition will add immediate critical mass to our existing German business and is expected to be accretive to earnings in 2003.

Embedded Value

Embedded Value is a measure of the economic net worth of a life insurance company. It consists of the present value of projected future after-tax distributable net income generated from the current in-force business, plus the market value of shareholders' equity. It excludes value attributed to, or expenses associated with, obtaining future new business. Embedded Value varies from the book value or common shareholders' equity of a company, which is calculated in accordance with Canadian GAAP and includes conservative provisions for adverse deviations.

The Embedded Value of the Company was \$6.3 billion as at December 31, 2002, up 16% from \$5.45 billion as at December 31, 2001. This significant increase was recognized despite the negative impact of global stock markets. At December 31, 2002, the ratio of Embedded Value to common shareholders' equity was 167%. The Embedded Value of new business added during 2002 was \$220 million, up 38% from the \$159 million added to Embedded Value by new business during 2001. This reflects the strong growth in new business profitability this year.

Outlook Regarding Company Ownership

On December 9, 2002, Manulife Financial Corporation (Manulife) announced its intention to make an unsolicited offer to acquire all of the outstanding common shares of the Company and via circular dated December 27, 2002, made its formal offer to Canada Life shareholders. On January 13, 2003, the Company's Board of Directors responded with a recommendation to the Company's common shareholders to reject the offer on the basis that the offer was inadequate. During the course of December 2002 and January and February of 2003, the Canada Life Board of Directors, through its investment advisors solicited a large number of parties to ascertain their interest in Canada Life. Management of Canada Life, working with a special committee of the Board of Directors, also gave consideration to a number of strategic initiatives to create more value for shareholders.

On February 14, 2003 the Board of Directors unanimously approved entering into a transaction agreement with Great-West Lifeco Inc. (Great West) for that company to acquire the shares of Canada Life and recommended to shareholders that they approve the transaction. Under the terms of the agreement, Great West would acquire all of Canada Life's common shares for a combination of cash and Great West stock valued at \$44.50 per Canada Life common share at the time. The transaction provides for a maximum of approximately 60% cash, 29% Great West common shares and 11% Great West preferred shares to be paid or issued to Canada Life's common shareholders.

On February 28, 2003, Manulife announced that it would not extend its offer and would return any shares tendered.

The completion of the transaction with Great West is subject to the satisfaction of certain conditions, including:

- the approval of the transaction by at least two-thirds of the votes cast at a special meeting of Canada Life's common shareholders, scheduled for May 5, 2003;
- the approval of the transaction by, among others, the Minister of Finance (Canada), the Superintendent of Financial Institutions (Canada) and foreign regulators; and
- the receipt of approval or expiration or termination of waiting periods under Canadian, United States and European competition or antitrust laws.

The timing of completion of the transaction will depend upon, among other things, the timing of the receipt of all required regulatory approvals. The closing date will occur on the later of (i) July 10, 2003 and (ii) the twelfth business day after all conditions to the completion of the transaction have been satisfied or waived, or such other date as may be agreed to by Canada Life and Great West.

The remainder of this document focuses on describing the results of operations and outlook for the existing businesses of Canada Life on a status quo basis and without consideration of the impact of the Great West transaction.

Income Statement Review

Summary Statement of Net Income

(in millions of Canadian dollars)	2002	2001	2000	2002 versus 2001	
				\$ Change	% Change
Revenues					
Premiums	\$ 5,915	\$ 5,358	\$ 4,676	\$ 557	10
Net investment income	2,154	2,241	2,306	(87)	(4)
Fee and other income	529	465	479	64	14
	8,598	8,064	7,461	534	7
Expenditures					
Policyholders' benefits	6,481	6,190	5,631	291	5
Other expenses	1,482	1,383	1,283	99	7
	7,963	7,573	6,914	390	5
Net income before income tax provision	635	491	547	144	29
Income tax provision	133	153	195	(20)	(13)
Net income including participating policyholders' net income (loss)	502	338	352	164	49
Participating policyholders' net income (loss)	3	(4)	(4)	7	175
Shareholders' net income	499	342	356	157	46
Preferred share dividends	9	—	—	9	—
Common shareholders' net income	\$ 490	\$ 342	\$ 356	\$ 148	43
Pro forma common shareholders' net income before the following:	490	427	328	63	15
Provision for expected claims arising from September 11, 2001 ¹	—	(85)	—	85	100
Disposed of operations ²	—	—	28	—	—
Common shareholders' net income	\$ 490	\$ 342	\$ 356	\$ 148	43

¹ In 2001, the results of operations were impacted by the effect of expected claims arising from September 11, 2001 for which we have recorded an \$85 million provision net of reinsurance recoveries and tax.

² Comprised of the gain on sale and results of general insurance operations disposed of in December 2000.

Common shareholders' net income was \$490 million, an increase of \$148 million or 43% over the year ended December 31, 2001.

While net income before tax of \$635 million for the year has increased \$144 million over the prior year's \$491 million, the provision for income taxes of \$133 million was down \$20 million year over year. Favourable impacts of \$22 million in respect of tax in 2002 related to the benefits of some corporate restructuring, the use of previously unrecognized loss carryforwards and lower statutory rates all of which are expected to continue into the future. In addition, a one-time release of a provision no longer required in the United Kingdom has contributed a \$24 million favourable impact and the write-off of future tax assets in 2001, that did not recur in 2002 contributed \$17 million.

The increase in common shareholders' net income included the following:

(in millions of Canadian dollars)	Variance to prior year
Growth in in-force less investment in new business, favourable mortality and morbidity experience, expense and tax savings	\$ 100
Impact of declines in global stock markets	(60)
Release of tax provision and sales force restructuring in the United Kingdom	6
Write-down in 2001 of future tax assets	17
Increases before the following:	63
Impact of September 11, 2001	85
Increase in common shareholders' net income	\$ 148

A number of factors have contributed to the \$100 million increase in year-over-year net income from business in-force, new business, experience and other factors:

- Net income from new business improved \$35 million over 2001 as a result of both product pricing margins and more efficient use of reinsurance.
- Favourable mortality and morbidity experience, expense efficiencies and favourable asset liability management contributed to the increase for the year despite reserve strengthening to cover improving annuitant mortality in the United Kingdom.
- The change in accounting policy adopted in 2002 whereby goodwill is no longer amortized as it was in 2001 contributed \$25 million to the increase in net income.
- Tax benefits arising from business acquisitions and restructuring activities have enabled the use of previously unrecognized tax loss carryforwards, which, together with lower statutory tax rates in some jurisdictions, have contributed to improve after-tax earnings by \$22 million this year and are expected to continue to have a positive impact on future earnings.

Declines in global stock markets had a negative impact on net income. As at December 31, 2002, stock market indices in Canada, the United States and the United Kingdom were on average 21% lower than a year ago. The negative impact of the declines in markets on earnings was \$60 million for the year.

Two non-recurring items in the United Kingdom resulted in a net non-recurring gain of \$6 million this year. These included the release of a \$24 million tax provision as a result of the favourable settlement of certain outstanding tax issues and a provision of \$18 million after tax that was taken to cover costs of exiting the in-house sales force.

There was a year-over-year reduction in tax and improvement in net income due to the one-time write-down of future tax assets of \$17 million following the 2001 substantially enacted reductions in the Canadian statutory tax rate.

Lastly, the provision taken in 2001 for claims arising from September 11 reduced net income last year by \$85 million. We continue to hold prudent provisions for these losses and did not realize any adverse development in 2002.

Premiums, Premium Equivalents and New Deposits

(in millions of Canadian dollars)	2002	2001	2000	2002 versus 2001	
				\$ Change	% Change
Premiums					
Annuities	\$ 2,474	\$ 2,272	\$ 1,746	\$ 202	9
Individual life and health insurance	1,510	1,428	1,384	82	6
Group life and health insurance	1,931	1,658	1,546	273	16
General fund premiums	5,915	5,358	4,676	557	10
Segregated funds deposits	3,721	3,828	3,692	(107)	(3)
ASO premium equivalents and other deposits	2,372	2,043	882	329	16
Total	\$ 12,008	\$ 11,229	\$ 9,250	\$ 779	7

General fund premium income increased by \$557 million or 10% from 2001 with strong sales in annuities and group life and health insurance across the Company. As a result of volatile global stock markets, consumer preferences appeared to shift from equity based products to fixed income products. Payout annuity sales were particularly strong in Canada and the United Kingdom. Premiums from group life and health insurance rose as a result of strong growth in both new sales and renewal business in Canada, the United Kingdom and the United States and from the U.K. group business acquisition in the latter part of 2002.

Segregated funds deposits decreased by \$107 million or 3% compared to 2001. Year-over-year changes in segregated funds deposits varied across the Company with an increase of \$120 million in the United States as a result of enhanced variable annuity fund offerings, and decreases in Canada due to changes in customer preferences, and in the United Kingdom due to a lower number of large single premium cases from the Isle of Man business.

Net Investment Income

(in millions of Canadian dollars)	2002	2001	2000	2002 versus 2001	
				\$ Change	% Change
Bonds ¹	\$ 1,450	\$ 1,371	\$ 1,268	\$ 79	6
Mortgages ¹	625	632	614	(7)	(1)
Common and preferred stocks ²	67	136	203	(69)	(51)
Real estate ²	98	81	80	17	21
Policy loans	79	75	70	4	5
Cash, cash equivalents and short-term investments	31	56	83	(25)	(45)
Other	(137)	(57)	34	(80)	(140)
Total investment income	2,213	2,294	2,352	(81)	(4)
Less: investment expenses	59	53	46	6	11
Net investment income	\$ 2,154	\$ 2,241	\$ 2,306	\$ (87)	(4)

¹ Includes amortized realized gains as follows: bonds \$100 million (\$102 million in 2001 and \$63 million in 2000); and mortgages \$12 million (\$11 million in 2001 and \$10 million in 2000).

² Includes amortized realized and unrealized gains as follows: common and preferred stocks \$27 million (\$78 million in 2001 and \$153 million in 2000); and real estate \$22 million (\$20 million in both 2001 and 2000).

Net investment income of \$2,154 million decreased from \$2,241 million in 2001. The decrease was primarily due to the negative impact of stock market declines, partially offset by the positive impact of the strengthening British pound and Euro and increased income on a larger bond portfolio. The overall rate of investment income earned on general fund invested assets was 6.8% compared to 7.3% in 2001.

Investment income from bonds rose to \$1,450 million, up \$79 million or 6% over 2001, primarily due to growth in the bond portfolio, which was \$22,317 million in 2002, up from \$19,046 million in 2001.

Investment income from common and preferred stocks of \$67 million was down \$69 million from 2001 as a result of poor performance in global stock markets. Amortization of net realized and unrealized gains decreased to \$27 million in 2002, down \$51 million from 2001. During 2002, stock markets in the principal countries in which the Company operates showed negative returns. The TSX Composite Index in Canada experienced a 14% decrease in 2002, the U.S. Standard & Poor's (S&P) 500 Index dropped 23%, and the United Kingdom FTSE 100 and Irish ISEQ had losses of 24% and 30% respectively.

Investment income from real estate rose to \$98 million in 2002, up from \$81 million in 2001, primarily due to increased rental income in the United Kingdom and the positive impact of the strengthening British pound.

Investment income from cash, cash equivalents and short-term investments dropped to \$31 million in 2002 from \$56 million in 2001 as short-term interest rates declined throughout 2002.

Other investment income dropped \$80 million from 2001 as a result of a decline in market value for investments supporting certain equity based insurance products. The change in value was offset by a corresponding decrease in actuarial liabilities.

Fee and Other Income

Fee income is earned principally from the management of segregated funds assets and is generally based on a percentage of the market values of the assets under administration. The Company also earns fee income from the administration of unit trusts in the United Kingdom, investment management services provided to third parties and administrative services (such as claims administration) provided to employer and other groups. During 2002, we reclassified our Irish "Unitized with Profit Fund" business from the general fund to segregated funds without a restatement of 2001. This has impacted the comparability of fee income year over year.

Fee and other income of \$529 million was up \$64 million compared to 2001, of which \$34 million was a result of the reclassification of our Irish "Unitized with Profit Fund" business. Increases occurred in the U.K. Division for our Isle of Man business and in Canada with growth in our Administrative Services Only (ASO) business.

Policyholders' Benefits

(in millions of Canadian dollars)	2002	2001	2000	2002 versus 2001	
				\$ Change	% Change
Annuity payments	\$ 1,352	\$ 1,246	\$ 1,128	\$ 106	9
Life, health and general benefits	2,193	1,987	1,670	206	10
Maturities, surrender payments and other	1,512	1,680	1,837	(168)	(10)
Participating policyholder dividends	295	305	289	(10)	(3)
Payments to policyholders and beneficiaries	5,352	5,218	4,924	134	3
Increase in actuarial liabilities	1,129	972	707	157	16
Policyholders' benefits	\$ 6,481	\$ 6,190	\$ 5,631	\$ 291	5

Payments to policyholders and beneficiaries of \$5,352 million rose by \$134 million or 3% over 2001. In the United Kingdom, we had an increase of \$203 million, primarily due to higher group life insurance claims, which included the acquired group business, and higher payout annuity payments arising from growth in new business. There was a decrease of \$103 million relating to our reinsurance operations, primarily because the provision for September 11 claims recorded in 2001 did not recur.

Changes in actuarial liabilities from year to year are a function of business volumes, underlying experience factors, changes in assumptions and refinements in the calculation of these liabilities. When payments are made to policyholders and beneficiaries, the Company's obligation under the policy is either partially or completely fulfilled and, consequently, the actuarial liability held at the time of the claim or payment is released. Different products have different actuarial liability requirements, and depending on expected future payments (which vary between protection and wealth management products), a change in claims or premiums by \$1 does not always result in a \$1 change in actuarial liabilities. Refinements in calculating actuarial liabilities are adjustments made by the Company's actuaries as a result of changes in expected future experience arising from analysis of recent actual experience.

(Further information regarding the changes in actuarial liabilities is provided in note 9 to the Consolidated Financial Statements.)

General Operating, Commissions and Other Expenses

(in millions of Canadian dollars)	2002	2001	2000	2002 versus 2001	
				\$ Change	% Change
General operating expenses	\$ 814	\$ 794	\$ 743	\$ 20	3
Commissions	539	461	409	78	17
Premium and other taxes, interest expense and non-controlling interest in subsidiary	129	103	107	26	25
Goodwill amortization	—	25	24	(25)	(100)
	\$ 1,482	\$ 1,383	\$ 1,283	\$ 99	7

General operating expenses in 2002 were \$11 million or 1% less than 2001, excluding the impact of acquisitions and non-recurring charges, of which \$7 million related to the group insurance acquisition and \$24 million for costs to exit our Financial Consultancy sales force, both in the United Kingdom. Keeping recurring expenses at or below the level of 2001 was a key focus for the Company in 2002 and was achieved despite the effect of the strengthening of the British pound and Euro against the Canadian dollar. Including the impact of acquisitions and non-recurring charges, general expenses of \$814 million in 2002 rose \$20 million or 3% over 2001.

As a result of strong sales across all of our operating divisions, commissions increased by \$78 million or 17% from 2001.

As a result of raising \$450 million of new capital by the issuance of Canada Life Capital Securities in March 2002, we had an additional \$25 million in financing expense in the current year. This was recorded in the Consolidated Statement of Net Income as non-controlling interest in subsidiary.

The Company adopted new accounting recommendations for goodwill and other intangible assets effective January 1, 2002. As a result, goodwill is no longer amortized to shareholders' net income. As well, the Company adopted new accounting requirements for stock-based compensation and other stock-based payments for which an expense of \$2 million was recorded this year. (See page 48 for a description of these changes in accounting policies.)

Income Taxes

The Company's effective tax rate for 2002 was 20.9% compared to 31.2% in 2001. The lower effective tax rate was due to the favourable settlement of certain outstanding tax issues, lower statutory tax rates in various jurisdictions and benefits relating to business acquisitions and restructuring activities. The Company's 2001 effective tax rate was higher than expected as a result of a write-down of its future tax asset following substantially enacted reductions in the Canadian federal and provincial statutory tax rates. Without the non-recurring items, the sustainable tax rate for 2002 was 26.5% compared to 30% for 2001.

Quarterly Results

	2002					2001 ¹				
(In millions of Canadian dollars except per share amounts)	Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1	Total
Total revenue	\$ 2,349	\$ 2,188	\$ 2,023	\$ 2,038	\$ 8,598	\$ 2,159	\$ 1,904	\$ 2,019	\$ 1,982	\$ 8,064
Common shareholders' net income	131	114	125	120	490	38	91	114	99	342
Earnings per common share – basic and diluted	0.81	0.71	0.78	0.75	3.05	0.23	0.57	0.71	0.62	2.13
Assets under administration	68,003	65,164	65,449	66,523		65,425	62,606	62,440	62,799	

¹ Shareholders' net income in the third and fourth quarters of 2001 was impacted by the \$85 million provision, net of tax, taken in respect of the estimate for claims arising from September 11, 2001 for our special risk reinsurance contracts. Of the \$85 million provision, \$15 million was taken in the third quarter and \$70 million in the fourth quarter. Excluding these provisions, common shareholders' net income for the third and fourth quarter respectively was \$106 million and \$108 million.

Review of Fourth Quarter Operating Performance

Total revenue in the fourth quarter of 2002 increased by \$161 million or 7% over the third quarter, due in part to the two business acquisitions during the quarter, and by \$190 million or 9% over the fourth quarter of 2001. This is not indicative of any particular trend or quarterly pattern but a function of stock market and currency impacts, as well as the business acquisitions and general growth in business in the current year.

Shareholders' net income was \$131 million in the fourth quarter of 2002, up \$17 million from the third quarter of 2002 and \$23 million from the fourth quarter of 2001 (excluding the provision for September 11, 2001). Reserve strengthening and the impact of the declines in global stock markets continued to lower net income before tax for the fourth quarter compared to the prior quarter and prior year fourth quarter. However, a net tax recovery resulted in relatively higher after-tax profit in the fourth quarter compared with prior quarters.

Assets under administration were up 4% in the fourth quarter compared to the prior quarter. The growth is consistent with the average growth in stock market indices of 7% for the fourth quarter of 2002 in Canada, the United States and the United Kingdom.

Performance by Business Segment

The Company's operations are broadly organized along geographic market lines, and we conduct our business through operating divisions in Canada, the United Kingdom, the United States, the Republic of Ireland and through a globally oriented International and Reinsurance Division. Each operating division focuses on its defined markets, with local responsibility for product development, marketing, distribution and pricing functions. Each division is required to meet corporate-wide strategic, business growth and expense objectives and to adhere to corporate risk management policies and guidelines. In addition, a corporate group oversees the management of invested assets via the Investment Division, provides certain administrative services for the operating divisions and is responsible for capital management. Capital is allocated to support the business within each division using an MCCSR-based allocation model. Income on that capital is credited to each division.

Divisional Percentage of Total

	Common shareholders' net income			Premiums, premium equivalents and new deposits			Assets under administration		
	2002	2001	2000	2002	2001	2000	2002	2001	2000
Canada	39%	47%	35%	47%	47%	48%	42%	46%	47%
United Kingdom	30%	36%	31%	26%	27%	25%	32%	29%	30%
United States	21%	26%	23%	17%	16%	16%	17%	18%	17%
Republic of Ireland	6%	10%	6%	7%	7%	8%	7%	6%	5%
International and Reinsurance	5%	(20)%	5%	3%	3%	3%	2%	1%	1%
Corporate	(1)%	1%	—	—	—	—	—	—	—
	100%	100%	100%	100%	100%	100%	100%	100%	100%

Divisional Financial Highlights

(in millions of Canadian dollars
except percentage amounts)

2002	Canada	United Kingdom	United States	Republic of Ireland	International and Reinsurance	Total
Common shareholders' net income	\$ 192	\$ 148	\$ 101	\$ 30	\$ 24	\$ 490¹
Return on common shareholders' equity	17.5%	15.7%	14.9%	10.1%	14.9%	14.0%
Premiums, premium equivalents and new deposits						
General fund premiums	\$ 2,103	\$ 1,508	\$ 1,784	\$ 139	\$ 381	\$ 5,915
Segregated funds deposits	1,283	1,554	222	660	2	3,721
ASO premium equivalents and other deposits	2,311	58	—	—	3	2,372
	\$ 5,697	\$ 3,120	\$ 2,006	\$ 799	\$ 386	\$ 12,008
Assets under administration						
General fund	\$ 14,119	\$ 10,345	\$ 10,990	\$ 1,401	\$ 1,336	\$ 38,191
Segregated funds	7,397	10,671	698	3,128	5	21,899
Other assets	7,346	553	—	—	14	7,913
	\$ 28,862	\$ 21,569	\$ 11,688	\$ 4,529	\$ 1,355	\$ 68,003

2001

Common shareholders' net income	\$ 161	\$ 122	\$ 87	\$ 34	\$ (68)	\$ 342¹
Return on common shareholders' equity	15.6%	14.8%	13.4%	16.7%	(51.7)%	11.1%
Premiums, premium equivalents and new deposits						
General fund premiums	\$ 1,893	\$ 1,079	\$ 1,671	\$ 391	\$ 324	\$ 5,358
Segregated funds deposits	1,395	1,888	102	442	1	3,828
ASO premium equivalents and other deposits	1,960	83	—	—	—	2,043
	\$ 5,248	\$ 3,050	\$ 1,773	\$ 833	\$ 325	\$ 11,229
Assets under administration						
General fund	\$ 14,031	\$ 7,421	\$ 10,942	\$ 1,609	\$ 948	\$ 34,951
Segregated funds	8,118	11,053	825	2,090	4	22,090
Other assets	7,756	615	—	—	13	8,384
	\$ 29,905	\$ 19,089	\$ 11,767	\$ 3,699	\$ 965	\$ 65,425

2000

Common shareholders' net income	\$ 123	\$ 112	\$ 82	\$ 22	\$ 17	\$ 356¹
Return on common shareholders' equity	12.3%	13.1%	12.9%	13.7%	16.4%	12.9%
Premiums, premium equivalents and new deposits						
General fund premiums	\$ 1,749	\$ 955	\$ 1,351	\$ 344	\$ 277	\$ 4,676
Segregated funds deposits	1,909	1,258	115	407	3	3,692
ASO premium equivalents and other deposits	775	107	—	—	—	882
	\$ 4,433	\$ 2,320	\$ 1,466	\$ 751	\$ 280	\$ 9,250
Assets under administration						
General fund	\$ 13,970	\$ 6,855	\$ 9,870	\$ 1,300	\$ 741	\$ 32,736
Segregated funds	8,326	11,219	854	1,980	4	22,383
Other assets	7,470	668	—	—	—	8,138
	\$ 29,766	\$ 18,742	\$ 10,724	\$ 3,280	\$ 745	\$ 63,257

¹ Total common shareholders' net income for 2002 includes a loss of \$5 million, income of \$6 million in 2001 and nil in 2000 from the Corporate Division.

Canadian Division

Highlights

- Shareholders' net income increased to \$192 million, up 19% over 2001.
- Premiums, premium equivalents and new deposits increased \$449 million to \$5,697 million compared to 2001.
- Completed the acquisition and integration of a leading provider of preferred term life insurance products in Canada in the fourth quarter of 2002.
- Introduced a critical illness insurance product in January 2003 that offers new protection options to our customers.
- Established Canada Life Securities Inc. as well as filed an application with OSFI for the establishment of a trust company to enhance support for our trust based wealth management products.

The Canadian Division offers a wide range of protection and wealth management products and related services through four distinct business units: individual life and health insurance, group life and health insurance, individual wealth management and group wealth management:

Protection		Wealth Management
Individual Life and Health Insurance	Group Life and Health Insurance	Individual and Group
Term Life, Universal Life, Participating Life, Disability, Critical Illness	Life, Disability, Critical Illness, Accidental Death and Dismemberment, Dental, Creditor Life, Creditor Health, Creditor Job Loss, Expatriate Coverage, Extended Health Care Plans	Products Retirement Savings Plans, Non-registered Savings Programs, Deferred Profit Sharing Plans, Defined Contribution Pension Plans, Payout Annuities, Deferred Annuities, Investment Management Services Only Plans, Retirement Income Funds, Life Income Funds Administrative Services Employee Stock Purchase and Options Plans, Incentive Plans

The Division operates across Canada through five regional marketing centres, nine sales offices and three servicing centres for individual business, and nine sales offices and six regional claims and services offices for group business. Our products are marketed through independent brokers, independent financial advisors, Managing General Agents, national accounts, and pension and benefit consultants, as well as our e-commerce subsidiary, Kanetix Ltd.

Financial Performance

Shareholders' net income of \$192 million grew by \$31 million or 19% over 2001. Premium revenue growth, favourable mortality and morbidity experience, improved operating efficiencies and the reduction in the statutory tax rate over 2001 were the key contributors to the strong performance, together with income tax provisions arising from a write-down of future tax assets in 2001 that did not recur this year. These increases were partially offset by the impact of the stock market declines and a benefit from investment spreads in 2001 that did not recur in 2002.

Canadian Division's Shareholders' Net Income

(in millions of Canadian dollars)	2002	2001	2000 ¹	2002 versus 2001	
				\$ Change	% Change
Individual life and health insurance	\$ 70	\$ 45	\$ 33	\$ 25	56
Group life and health insurance	48	33	25	15	45
Investments and pensions	74	83	37	(9)	(11)
Canadian Division's shareholders' net income from continuing operations	192	161	95	31	19
Disposed of operations ¹	—	—	28	—	—
Canadian Division's shareholders' net income	\$ 192	\$ 161	\$ 123	\$ 31	19

¹ 2000 results included \$10 million of shareholders' net income from operations and an \$18 million after-tax gain on the sale of our general insurance subsidiary on December 31, 2000.

Summary Statement of Operations

(in millions of Canadian dollars)	2002	2001	2000 ¹	2002 versus 2001	
				\$ Change	% Change
Revenues					
Premiums	\$ 2,103	\$ 1,893	\$ 1,749	\$ 210	11
Net investment income	897	951	995	(54)	(6)
Fee and other income	182	177	177	5	3
	3,182	3,021	2,921	161	5
Expenditures					
Policyholder benefits	2,317	2,183	2,096	134	6
General operating expenses	328	323	348	5	2
Commissions	173	175	155	(2)	(1)
Other	58	55	77	3	5
	2,876	2,736	2,676	140	5
Net income before income taxes	306	285	245	21	7
Income tax provision	113	123	122	(10)	(8)
Net income	193	162	123	31	19
Participating policyholders' net income	1	1	—	—	—
Common shareholders' net income	\$ 192	\$ 161	\$ 123	\$ 31	19
Return on common shareholders' equity	17.5%	15.6%	12.3%		

¹ 2000 results included \$124 million of premiums, \$8 million of investment income, \$18 million gain on sale in other income, \$114 million of expenditures and \$8 million of income taxes, resulting in \$28 million of shareholders' net income from disposed general insurance operations.

Premiums, Premium Equivalents and New Deposits

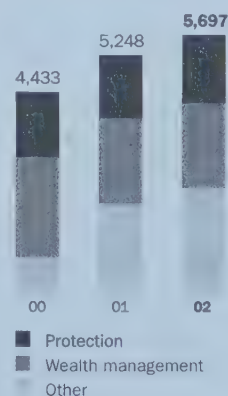
(in millions of Canadian dollars)	2002	2001	2000
Annuities	\$ 600	\$ 499	\$ 312
Individual life and health insurance	595	548	547
Group life and health insurance	908	846	766
General insurance	—	—	124
General fund premiums	2,103	1,893	1,749
Segregated funds deposits	1,283	1,395	1,909
	3,386	3,288	3,658
Other deposits	1,902	1,582	410
ASO premium equivalents	409	378	365
	\$ 5,697	\$ 5,248	\$ 4,433

Premiums, premium equivalents and new deposits of \$5,697 million increased \$449 million, up 9% over 2001, primarily due to increases in general fund premiums and other deposits, partially offset by declines in segregated funds deposits. Our diversified product portfolio has enabled us to increase our premium revenues as we offer fixed income products such as guaranteed and payout annuities, which customers prefer over equity based products in weak stock markets.

Premiums, premium equivalents and new deposits of \$5,248 million for 2001 were up \$815 million from 2000. The growth in 2001 of 18% over 2000 resulted from a significant rise in other deposits relating to customer contributions to group retirement savings plans and non-registered savings plans in the group savings business acquired in December 2000. There was also a reduction in segregated funds deposits with lower conversion between segregated funds deposits in 2001 and customer preferences shifting away from equity based products.

Premiums, premium equivalents and new deposits

(in millions of Canadian dollars)



Net Investment Income, Fee Income and Other Income

Net investment income was down by \$54 million or 6% from 2001 due to the decline in stock markets, most impacted by the TSX and S&P 500 declines of 14% and 23% year-over-year respectively, as well as lower interest rates on our fixed income investments.

Fee income rose by \$5 million, primarily due to growth in our Administrative Services Only (ASO) business of \$6 million and growth in our e-commerce subsidiary, Kanetix Ltd., of \$1 million. This was partially offset by a reduction in segregated funds fee income of \$2 million resulting from the lower market values of segregated funds assets in 2002.

Expenditures

Policyholder benefits represent payments to policyholders as well as the change in actuarial liabilities. Policyholder benefits increased by \$134 million or 6% from 2001 due to an increase in the change in actuarial liabilities. Our payments to policyholders were largely unchanged from 2001.

General operating expenses were up by \$5 million or 2% from 2001. The increase was due to continued investment in new administrative systems and integration of the group savings business acquired in December 2000, partly offset by efficiencies in our individual and wealth management operations and reduced expenditures to maintain existing systems. One-time expenses of \$4 million relating to restructuring activities in IT were included in 2002.

Commission expenses decreased \$2 million or 1% below 2001. Commission growth was seen in participating life, payout annuities and group health insurance lines, consistent with the revenue growth for these products. These increases were more than offset by the impact of lower sales in individual health, as well as individual market based Universal Life products.

The effective tax rate declined to 37% in 2002 from 43% in 2001 due to a reduction of 3.25% in the statutory tax rate and higher income tax provisions taken in 2001, which reflected the cumulative effect of federal and provincial substantially enacted tax rate reductions on future tax assets.

Products and Services

Individual Life and Health Insurance

Premiums increased by \$47 million or 9% from 2001 levels, led by premium growth in participating life and non-participating life insurance business lines. The growth came from a combination of renewal activity resulting from strong new business generated in 2001 and reinvestment of dividends by participating policyholders due to the strong performance achieved.

Earnings were up by \$25 million to \$70 million, primarily due to favourable mortality experience and operating efficiencies during the year. Our continued focus on increasing operational efficiencies and effective expense management has resulted in a reduction of the change in actuarial liabilities and contributed \$21 million to earnings in 2002. In October 2002, we completed the acquisition of a leading provider of preferred term life insurance in Canada. This transaction is projected to achieve economies of scale and to be accretive to earnings in 2003.

We introduced a suite of enhanced individual protection products including Universal Life, disability and term insurance, as well as an innovative critical illness product that offers new protection options to our customers. We continue to reach our customers through our strong relationship with Managing General Agents, as well as by leveraging our expanded distribution capabilities through Kanetix Ltd., our e-commerce subsidiary, and CWMG, our Canadian worksite marketing group.

Group Life and Health Insurance

Premiums rose by \$62 million or 7% over 2001, primarily due to new sales and additional premiums on existing cases in group health insurance. This was driven in part by our new online services for group benefit clients and their employees. This Internet based initiative enables insured individuals to track claims payments online, reducing call centre inquiries and improving operating efficiencies.

Earnings increased by \$15 million to \$48 million mainly due to favourable morbidity experience in group health insurance and general business growth.

Investments and Pensions

Premiums grew by \$101 million or 20% over 2001 due to strong sales in individual guaranteed and payout annuity products. The premium increases in individual guaranteed annuities reflected customers' preference for fixed income products in response to the poor performance of the stock market. Payout annuity premiums grew as a result of our competitively priced products, increased demand by retiree clients seeking secure investment vehicles, and our enhanced web based quotation system that provides our distribution network better access to our products.

Fee and other income was unchanged over last year. Fee income on individual segregated funds declined due to generally weak market performance in 2002. Fee income on group segregated funds was slightly improved over last year, as strong net cash flows in 2001 carried over into the early part of 2002 offsetting the impact of the weak equity markets in the year.

Segregated funds deposits of \$1,283 million were down \$112 million from 2001. Individual segregated funds deposits of \$351 million were down \$9 million from 2001, primarily due to customers' preference shifting away from equity based products. Group segregated funds deposits fell \$103 million to \$932 million, primarily due to employers contributing less to employee benefit programs in poor market conditions.

Other deposits grew by \$320 million over 2001, primarily due to the growth in customer contributions to group retirement savings plans and non-registered savings programs in the group savings operation acquired in December 2000, together with growth in assets administered for third parties.

Earnings decreased by \$9 million to \$74 million mostly related to the impact of poor market performance, together with a benefit from investment spreads in 2001 that did not recur in 2002, partially offset by favourable mortality gains in payout annuities.

With our vision to integrate and to support all of the Canadian Division's trust and insurance based wealth management products, we established Canada Life Securities Inc. (CLSI), a member of the Investment Dealers Association. CLSI executes mutual fund, pooled fund, GIC and company stock transactions for its trust based clients. In addition, we have filed an application with the Office of the Superintendent of Financial Institutions for the establishment of a trust company.

Assets Under Administration

(in millions of Canadian dollars)	2002	2001	2000
General fund	\$ 14,119	\$ 14,031	\$ 13,970
Segregated funds	7,397	8,118	8,326
Other assets ¹	7,346	7,756	7,470
	\$ 28,862	\$ 29,905	\$ 29,766

¹ Other assets under administration represent group-sponsored retirement savings plans, non-registered savings programs and other investments under management.

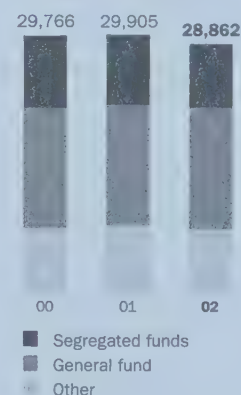
Assets under administration of \$28,862 million decreased by \$1,043 million compared to 2001, primarily due to declines in market values of segregated funds and other assets.

Segregated funds assets decreased \$721 million or 9%, against a TSX Composite Index decline of 14% for 2002. The change in segregated funds assets was better than the composite index as a result of market performance from the portfolio exceeding the overall market level, coupled with positive net cash flows for the year, primarily in the group segregated funds portfolio.

Other assets under administration decreased by \$410 million or 5% primarily due to impact of market declines. The portfolio performed better than the overall equity markets as it is a diversified portfolio that has a significant element of fixed income investments.

Assets under administration

(in millions of Canadian dollars)



Competitive Conditions

Individual Insurance

We offer a full suite of competitive individual insurance products (participating, term, Universal Life, disability and critical illness) to meet our customers' needs. With our acquisition of a leading provider of preferred term life insurance in the fourth quarter of 2002, we have regained our top place in the term life insurance market in Canada based on September 30, 2002 market share data. We will continue to increase our presence in this market segment by focusing on the introduction of new products and enhanced intermediary relationships through business-to-business back office integration with large producer organizations.

Group Life and Health Insurance

We continue to maintain our position in the highly competitive group life and health insurance market place. We are the fifth largest provider in Canada of group life and health insurance as measured by total life, health and ASO premium equivalents for the year ended 2001. We are maintaining our focus on implementing state-of-the-art technology to improve our product development cycle time and to lower unit costs. This will allow us to better penetrate the large case market (i.e., more than 500 lives covered) in the future.

Our group creditor insurance business continues to lead the market with more than 50% market share and counts the top four credit-granting institutions in Canada within its customer base. We intend to retain this position by continuing to provide superior service to our financial institution business partners through innovative technology solutions and continuous process improvement.

Wealth Management

The ageing of the Canadian population is continuing to make saving for retirement a priority for many Canadians. Throughout 2002, we restructured our distribution models to enhance the relationship with our advisory channels. We will maintain our focus on growing our presence in wealth management markets.

Group Wealth Management and Payout Annuities

Our group savings business ranked second in the fast growing defined contribution plans market as at September 30, 2002, primarily due to our leading-edge customer-oriented web and reporting capabilities and enhanced member education capability through the Internet, print materials and call centre. We will focus on providing seamless, one-stop service to group customers by integrating our insurance and trust businesses on a new platform over the next few years.

Our payout annuities also ranked second in the market place as at September 30, 2002, reflecting our competitive annuity rates made available to intermediaries through our web based quotation system.

Individual Wealth Management

Our individual savings business remained in eighth place in the Canadian market as at September 30, 2002. We offer a selection of three best-in-class investment products and a family of guaranteed products to preserve, grow and manage family wealth. Our segregated funds family includes more than 60 different funds, providing a wide range of traditional and specialized investments to deal with increasing scope and complexity of client needs. At the end of December 2002, we had more than \$980 million in our guaranteed term investments and \$2.5 billion in segregated funds investments.

We plan to improve our market position by continuing to listen to the needs of our customers through regular customer satisfaction surveys, expanding our product and service offerings, improving the time we take to market a new product by significantly shortening the product development cycle, and increasing our distribution capabilities.

We will continue to build on the market success of this business, to re-engineer processes and to assess changes to our technology platform in order to improve customer service and retention.

Divisional Outlook

Building on a strong year in 2002, we aim to deliver solid financial performance in support of the overall corporate goal of increasing shareholder value.

Consistent with our strategy to grow through value-added acquisitions, the transaction completed this year is projected to deliver economies of scale and to be accretive to earnings in 2003.

We continue to expand our product offerings and product diversification to meet a broad range of customer needs for protection and wealth management and have implemented a new best practice product development approach to reduce time to market.

In terms of product delivery, greater attention will be paid to Internet based distribution channels and work site access. We will also build on our recently restructured distribution model to offer better service to our advisory channels through our five regional marketing centres across Canada.

Leveraging technology is essential to providing superior customer service. Our innovative web based self-serve and policy administration systems replacement in our group life and health operations is on track for completion in the third quarter of 2003 and will further solidify our position in this market. Leveraging technology is also integral to achieving a leadership position in the Canadian wealth management marketplace. A major technology project is underway to integrate and to support all of the Canadian Division's trust and insurance based wealth management products over the next few years. The business value of our technology investment is expected to cut costs, to enhance quality and customer service and, ultimately, to generate revenue and earnings growth. We have implemented strong project management practices to run these initiatives as they are critical to achieving our business objectives.

We reached a key milestone in our "pursuit of Business Excellence" journey by receiving the National Quality Institute's Progressive Excellence Program (PEP) level 2 certification. This award recognizes our continued focus on increasing customer service and satisfaction in a cost-efficient and effective way. A key focus of this program is process management, and we currently have 27 process improvement projects underway. Since 2001, we have realized \$6 million in benefits as a result of these initiatives.

United Kingdom Division

Highlights

- **44% increase in premiums from group life and disability income protection insurance.**
- **50% increase in premiums from payout annuities.**
- **Ceased operating the in-house Financial Consultancy sales force in November 2002.**
- **Acquired a significant block of group life and long term disability insurance business in October 2002, ranking us as the market leader in the group protection business. Integration of this business is progressing well.**
- **Significant investment in our customer support and information systems completed in 2002.**

The U.K. Division offers a focused range of protection and wealth management products and related services in three main areas: individual life and health insurance, group life and health insurance, and wealth management and retirement protection:

Protection		Wealth Management
Individual Life and Health Insurance	Group Life and Health Insurance	Investments and Pensions
Term Life, Long Term Disability, Critical Illness	Term Life, Disability Income, Critical Illness	Immediate and Deferred Individual Annuities, Payout Annuities for individuals retiring from company sponsored pension plans, Segregated Funds, Unit Trusts

Individual

Individual customers in the United Kingdom are now serviced through various Independent Financial Advisors (IFAs). This follows the decision in the fourth quarter of 2002 to cease operating the in-house Financial Consultancy sales force.

We are continuing to strengthen our Isle of Man operations, selling through IFAs in the United Kingdom and brokers in other selected territories.

Group

The transaction to acquire a significant block of group life and long term disability insurance business was completed on October 1, 2002. The U.K. Division is now the U.K. market leader in the group protection business, ranking first in group life and second in group income protection. The process of integrating this significant block of business with our existing group business has begun and is expected to be completed by the end of 2003. This business is distributed through IFAs, mainly employee benefit consultants.

Financial Performance

Shareholders' net income increased to \$148 million for the year, a \$26 million or 21% increase over 2001. Contributing to this increase was the favourable impact of growth in business, as well as gains from asset liability management, offset somewhat by the impact of negative stock markets.

There were a number of non-recurring items that affected the results of operations for 2002 and the comparability of results for 2002 and 2001.

- Net income before tax of \$118 million fell \$29 million from 2001. Actuarial liabilities were strengthened to cover improving annuitant mortality while liabilities related to prior period pension sales and guaranteed annuity options that were no longer required were released. A gross provision of \$26 million (\$18 million after tax) was taken to cover the costs of the exit of the Financial Consultancy sales force. The change in accounting policy in 2002, whereby goodwill is no longer amortized as it was in 2001, contributed a \$20 million favourable variance in 2002 compared to 2001.
- The tax recovery of \$30 million in 2002 included benefits of \$22 million arising from the business acquisition, restructuring activities and the use of previously unrecognized tax loss carryforwards. As well, as a result of the favourable settlement of certain outstanding tax issues, a \$24 million tax provision was released.

Foreign currency fluctuations have had an impact on the results of operations and financial position of the U.K. Division in 2002. With the strengthening of the British pound to the Canadian dollar, the average exchange rate increased 5% over 2001, resulting in corresponding increases in the income statement, and the year-end exchange rate increased by 9%, affecting the balance sheet and assets under administration.

U.K. Division's Shareholders' Net Income

(in millions of Canadian dollars)	2002	2001	2000	2002 versus 2001	
				\$ Change	% Change
Investments and pensions	\$ 142	\$ 110	\$ 134	\$ 32	29
Group life and health insurance	16	18	(6)	(2)	(11)
Individual life and health insurance	(10)	(6)	(16)	(4)	(67)
U.K. Division's shareholders' net income	\$ 148	\$ 122	\$ 112	\$ 26	21

Summary Statement of Operations

(in millions of Canadian dollars)	2002	2001	2000	2002 versus 2001	
				\$ Change	% Change
Revenues					
Premiums	\$ 1,508	\$ 1,079	\$ 955	\$ 429	40
Net investment income	384	422	475	(38)	(9)
Fee and other income	225	208	221	17	8
	2,117	1,709	1,651	408	24
Expenditures					
Policyholder benefits	1,698	1,270	1,243	428	34
General operating expenses	216	206	172	10	5
Commissions	81	66	73	15	23
Other	4	20	20	(16)	(80)
	1,999	1,562	1,508	437	28
Net income before income taxes	118	147	143	(29)	(20)
Income tax provision (recovery)	(30)	25	31	(55)	(220)
Common shareholders' net income	\$ 148	\$ 122	\$ 112	\$ 26	21
Return on common shareholders' equity	15.7%	14.8%	13.1%		

Premiums, Premium Equivalents and New Deposits

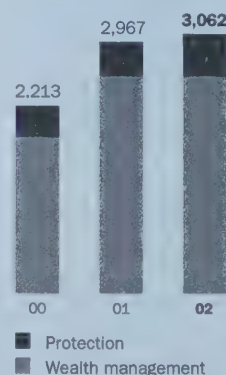
(in millions of Canadian dollars)	2002	2001	2000
Annuities	\$ 1,009	\$ 674	\$ 589
Individual life and health insurance	144	159	160
Group life and health insurance	355	246	206
General fund premiums	1,508	1,079	955
Segregated funds deposits	1,554	1,888	1,258
	3,062	2,967	2,213
Other deposits	58	83	107
	\$ 3,120	\$ 3,050	\$ 2,320

Total premiums, premium equivalents and new deposits of \$3,120 million were up \$70 million or 2% over 2001. Strong payout annuity sales in the year and the impact of favourable currency movement were partly offset by a decrease in segregated funds deposits.

General fund premiums of \$1,508 million were up \$429 million or 40% over 2001. The majority of this increase was driven by strong sales of competitively priced payout annuities, supported by a strong investment performance and a growing market. This is in line with our strategic focus on building our retirement income business. Group life and health insurance premiums increased by 44% over the prior year, assisted by the newly acquired group business.

General fund premiums and segregated funds deposits

(in millions of Canadian dollars)



Segregated funds deposits of \$1,554 million were down \$334 million or 18% from 2001. The majority of this decrease was due to difficult market conditions and a lower number of large single premium cases from the Isle of Man relative to 2001.

Net Investment Income, Fee Income and Other Income

Net investment income of \$384 million decreased by \$38 million or 9% from 2001. This decline was due primarily to the sale of two tranches of equity instruments that had been backing products in the general fund, which matured in 2002. The decline in investment income was offset by a corresponding reduction in actuarial liabilities and, therefore, resulted in no impact on net income.

Fee and other income of \$225 million increased by \$17 million or 8% over 2001. This increase was consistent with the increase in offshore business, which has grown despite the drop in single premium cases relative to 2001 and also includes \$7 million from the impact of currency movements.

Expenditures

Policyholder benefits rose by \$428 million or 34% over 2001. Payments to policyholders increased by \$203 million or 22%, primarily due to higher group life insurance claims, which included the acquired group business, and higher payout annuity payments arising from growth in new business. The change in actuarial liabilities increased by \$225 million from 2001, primarily due to the growth in new business in payout annuities.

General expenses of \$216 million were up \$10 million or 5% over 2001. Excluding the \$24 million in expenses relating to the closure of the Financial Consultancy sales force and \$10 million of currency translation impact, expenses decreased by \$24 million over 2001 as a result of lower expenditures for the review of past pension sales and improved operational efficiencies. Commissions rose by \$15 million or 23% over 2001 due mainly to the growth in new business and a higher proportion of the business on the Isle of Man attracting commission payments relative to 2001.

Products and Services

Individual Life and Health Insurance

Total non-participating and participating individual life and health insurance premiums decreased by \$15 million or 9% from 2001. Non-participating individual life and health insurance premiums decreased by \$12 million or 18% from 2001 due in part to a fall-off of sales in the latter part of the year as a result of the exit of the Financial Consultancy sales force and to the cumulative effect of a small reclassification of reinsurance that reduced premiums and the change in actuarial liabilities.

Having exited the Financial Consultancy sales force, the distribution of individual life and health insurance products will continue through IFAs.

Our strategy going forward is to develop unit linked types of protection products instead of the more conventional non-linked types of products that we currently offer.

Group Life and Health Insurance

In group life and health insurance, premium income increased by \$109 million or 44% over 2001, of which \$70 million was due to the acquisition of the block of group business and the remainder due to new business and strong renewal premium growth during the year.

Combining both the existing and new business acquired together, on an annualized basis, the group business grew 4% in premium revenue over the year 2001. There was particular strength in the life product, where premiums grew by almost 7%. The number of lives covered increased by 4.5%. The level of in-force business for the combined group business has been maintained over the first three months of combined operations in 2002.

Investments and Pensions

In total, wealth management premiums and deposits were relatively flat year over year. However, excluding a large single premium case for \$400 million that enhanced the 2001 figures, premiums grew by 17%, much of which was due to the strong payout annuity sales. Sales of our unique retirement income product, the Annuity Growth Account, are now beginning to reach expectations with sales in 2002 of \$167 million, a growth of 66% over 2001.

Assets Under Administration

(in millions of Canadian dollars)	2002	2001	2000
General fund	\$ 10,345	\$ 7,421	\$ 6,855
Segregated funds	10,671	11,053	11,219
Other assets	553	615	668
	\$ 21,569	\$ 19,089	\$ 18,742

Total assets under administration of \$21,569 million increased \$2,480 million or 13% over 2001. The impact of currency translation due to the change in rates over 2001 was an increase of \$1,810 million. In local currency, total assets increased by 3%.

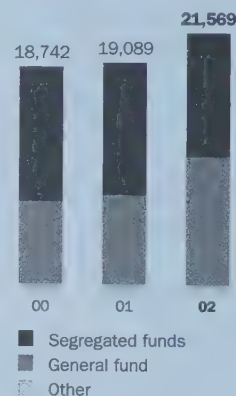
General fund assets grew by \$2,924 million or 39% over 2001. In local currency, these assets increased by 27%. This increase is a result of the level of growth in new business for payout annuities and the group acquisition.

Segregated funds assets fell by \$382 million or 3% from 2001. In local currency, these assets fell by 12% due to the impact of the fall in the U.K. stock market during 2002, partially offset by increases in the business written through Canada Life International.

Other assets include unit trusts held by outside investors. These assets have fallen by 10% due to the drop in the U.K. stock market in 2002 and the reduction of sales of these products following the closure of the Financial Consultancy sales force.

Assets under administration

(in millions of Canadian dollars)



Competitive Conditions

The U.K. market is the third largest life insurance market in the world and the largest market for life insurance in Europe. It is also one of the fastest growing life insurance markets for protection and wealth management products. These opportunities have resulted in a large number of international and domestic based competitors operating in the United Kingdom.

Canada Life is in the top 30 of life insurance companies operating in the United Kingdom, and we hold strong positions in several niche areas:

- In the group protection business, we are the market leader, ranking first in group life with approximately 30% of that market and second in the group income protection market with a 21% market share.
- In the wealth management business, we are a top provider of offshore single premium investment products into the United Kingdom.
- In the retirement business, we are a top five payout annuity provider based on latest industry data.

Divisional Outlook

With the acquisition of the group business in 2002, a primary target for 2003 is to maintain current business levels and to integrate the acquired business with our existing operations with minimal impact on customer service levels. The integration process is progressing well, and we expect this to be completed by the end of 2003. Our goal is to have the lowest unit costs and best customer service in this market segment.

The U.K. regulatory environment is expected to change within the next year or so. The strictly polarized selling regime, under which companies can sell only those investment and savings products they themselves manufacture or sell through IFAs, is expected to change. We expect the new regime will enable strong niche providers such as Canada Life to leverage its expertise and manufacture some of its products for other providers lacking that expertise. This is a new and potentially exciting distribution method for Canada Life in the United Kingdom. We also expect the IFA channel to maintain an important distribution role going forward, and we believe our strong niche position will continue to be favoured by IFAs in the new regulatory environment.

We have continued our focus on growing our retirement income business in 2002 with the sales of payout annuities and our innovative new Annuity Growth Account. This led to sales in 2002 that were 66% higher than the previous year. Given an ageing U.K. population with accumulated pension funds vesting, the prospect for the sales of payout annuities is good.

A new onshore investment product with options to invest with a variety of fund managers was launched in late 2002. It is expected to be one of the important products for growth in 2003 new business. We believe the design of the product is consistent with the direction of the new regulatory environment.

The Division has made major strides forward in systems rationalization, with our recent group acquisition, and in establishing a clear and focused strategy in preparation for the new regulatory environment. We believe we are well positioned for future growth.

United States Division

Highlights

- Shareholders' net income increased by \$14 million or 16% over 2001.
- Group premiums increased by \$104 million or 23% over 2001.
- General expenses decreased by \$5 million compared to 2001 due to continued focus on cost containment.
- Completed the relocation of 90 service positions to the Company's Canadian western headquarters in Regina, which is expected to generate expense savings of \$3 million in 2003.

The U.S. Division offers a wide range of protection and wealth management products and related services. It is organized into two operational areas that market (i) group life insurance, disability income insurance and other group protection products and (ii) individual life insurance, and savings and investment products. For ease of comparison among divisions, the U.S. Division's discussion and analysis is broken down by product grouping rather than by distribution channels:

Protection		Wealth Management
Individual Life and Health Insurance	Group Life and Health Insurance	Investments and Pensions
Whole Life, Term Life, Universal Life, Critical Illness, Variable Universal Life (Segregated Funds)	Long Term Disability, Short Term Disability, Accidental Death and Dismemberment, Dental, Critical Illness, Medical Stop Loss, Group Life	Fixed Annuities, Variable Annuities (Segregated Funds)

The Division carries on business in all 50 states and in the District of Columbia through 30 group offices and 20 individual offices, which support distribution of its products through independent personal producing agents, brokers, consultants and salaried group sales representatives.

Financial Performance

Shareholders' net income increased 16% to \$101 million for 2002 compared to \$87 million in 2001. Improved mortality experience, increases in investment performance resulting from continued asset and liability matching improvements and a positive impact from revised assumptions in individual insurance actuarial liabilities contributed to the increase. These favourable factors were partially offset by poor morbidity experience in the group health line, and higher income taxes in wealth management.

U.S. Division's Shareholders' Net Income

(in millions of Canadian dollars)	2002	2001	2000	2002 versus 2001	
				\$ Change	% Change
Individual life and health insurance	\$ 51	\$ 38	\$ 31	\$ 13	34
Group life and health insurance	1	(3)	15	4	133
Investments and pensions	49	52	36	(3)	(6)
U.S. Division's shareholders' net income	\$ 101	\$ 87	\$ 82	\$ 14	16

Summary Statement of Operations

(in millions of Canadian dollars)	2002	2001	2000	2002 versus 2001	
				\$ Change	% Change
Revenues					
Premiums	\$ 1,784	\$ 1,671	\$ 1,351	\$ 113	7
Net investment income	705	692	698	13	2
Fee and other income	21	16	21	5	31
	2,510	2,379	2,070	131	6
Expenditures					
Policyholder benefits	2,074	1,992	1,730	82	4
General operating expenses	150	155	128	(5)	(3)
Commissions	119	106	86	13	12
Other	18	18	27	—	—
	2,361	2,271	1,971	90	4
Net income before income taxes	149	108	99	41	38
Income tax provision	51	30	25	21	70
Net income	98	78	74	20	26
Participating policyholders' net loss	(3)	(9)	(8)	6	67
Common shareholders' net income	\$ 101	\$ 87	\$ 82	\$ 14	16
Return on common shareholders' equity	14.9%	13.4%	12.9%		

Premiums, Premium Equivalents and New Deposits

(in millions of Canadian dollars)	2002	2001	2000
Annuities	\$ 805	\$ 790	\$ 580
Individual life and health insurance	427	433	428
Group life and health insurance	552	448	343
General fund premiums	1,784	1,671	1,351
Segregated funds deposits	222	102	115
	\$ 2,006	\$ 1,773	\$ 1,466

General fund premiums of \$1,784 million in 2002 increased by \$113 million or 7% from 2001. Strong group life and health premium income in addition to higher individual annuity sales contributed to the increase, which was partially offset by a decrease in GIC sales. The slight decrease in individual insurance is due to lower premiums in older closed blocks of business.

Segregated funds deposits of \$222 million in 2002 were \$120 million or 118% higher than 2001 due to enhanced variable annuity fund offerings.

Net investment income, Fee income and Other income

Net investment income of \$705 million increased \$13 million from 2001. A decrease in income due to poor stock market performance was more than offset by the positive impact of recoveries on impaired investments and strengthening of the U.S. dollar. Fee and other income increased by \$5 million or 31% over 2001. The increase was due to a non-recurring gain resulting from a reinsurance treaty.

Expenditures

Policyholder benefits increased by \$82 million or 4% over 2001, primarily due to the growth of the group life and health protection business. In addition, individual annuity actuarial liabilities were up as a result of higher sales. General expenses of \$150 million decreased \$5 million or 3% compared to 2001. The general expenses for the year included a one-time cost of \$3 million associated with the transfer of 90 service positions to the Company's western headquarters in Regina from Atlanta.

The increase in the effective rate of income tax in 2002 is due to the change in mix of income.

Products and Services

Individual Life and Health Insurance

The Division's transition to a focus on non-participating insurance products continued with a 28% increase in sales of non-participating insurance as measured by new annualized premiums over 2001. Individual life and health premiums decreased primarily due to lower premiums in the reinsured Crown Life business as that business declines over time.

The focus in the individual insurance operation was concentrated on maintaining the competitiveness of its product portfolio and enhancing customer service. In the fourth quarter of 2002, a new Variable Universal Life administration platform was implemented. The platform will enable a greater variety of Variable Universal Life products to be offered. Moreover, several enhancements were made to the non-participating term insurance product offerings. Further product development work was completed on a new Universal Life product for introduction early in 2003. As announced in the third quarter of 2002, 50 full time support service positions were relocated to the Company's western headquarters in Regina from Atlanta. The associated expense savings resulting from this move are expected in 2003.

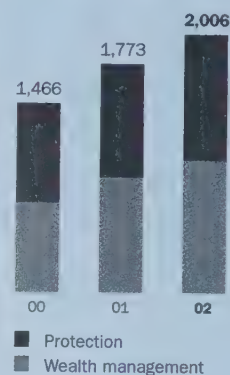
Group Life and Health Insurance

Premium revenues increased by \$104 million or 23% compared to 2001, driven by a combination of new sales and completion of the Ohio National transaction. In 2001, a strategic alliance was established with Ohio National, which allowed us to renew their in-force block of business beginning with July 2001 renewals.

A major focus in 2002 included re-pricing of a significant portion of the product portfolio and fine tuning underwriting to address product lines where profitability did not meet management's expectations. Also, in the third quarter of 2002, 40 full time service positions were relocated to the Company's western headquarters in Regina from Atlanta. The benefits of these initiatives are expected to impact positively on 2003 results.

General fund premiums and segregated funds deposits

(in millions of Canadian dollars)



Investment and Pensions

While protection products are the U.S. Division's primary focus, the Division will continue to look for opportunities to write wealth accumulation business where our profitability objectives can be met.

Strong single premium annuity sales offset by reduced GIC premiums accounted for the 2% increase in annuity premiums. GIC sales were below 2001 as the marketplace did not present the same opportunities to achieve favourable spreads. Segregated funds deposits of \$222 million in 2002 were \$120 million or 118% higher than 2001 due to enhanced variable annuity fund offerings.

Assets Under Administration

(in millions of Canadian dollars)	2002	2001	2000
General fund	\$ 10,990	\$ 10,942	\$ 9,870
Segregated funds	698	825	854
	\$ 11,688	\$ 11,767	\$ 10,724

Total assets decreased by \$79 million or 1% compared to 2001. Total general fund assets grew by \$48 million or 0.4% over 2001. Total segregated funds assets decreased by \$127 million or 15% from 2001, primarily attributable to a decline in U.S. stock markets. As protection products remain the primary focus for the Division, asset growth is expected to be lower than the overall corporate growth rate.

Competitive Conditions

The Company's U.S. Division operates in a large, competitive and highly fragmented market. In addition, certain of the Division's products compete with similar products offered by banks, mutual funds companies and other companies outside the insurance industry. Over the past 10 years, the industry has undergone significant consolidation, and management believes this consolidation trend will continue. Distribution channels continue to evolve, and the competition for distribution relationships is significant. While industry distribution through the Internet remains limited, technology and the use of the Internet are required in the areas of providing customer information and self-service capabilities for clients and producers.

Divisional Outlook

Advancing into 2003, we will continue to add to our competitive product portfolio in individual protection through the release of several new and updated product offerings. We will also be expanding distribution relationships including expansion of our Variable Universal Life wholesaling network. In addition to a continued focus on group profitability, a main initiative for group protection is to develop additional business through our in-force groups.

Continuing to enhance service to producers and policyholders is a focus through both technology and process improvement initiatives. This includes enhancement of the Division's Internet self-service portals.

Assets under administration

(in millions of Canadian dollars)



Irish Division

Highlights

- Effective January 1, 2003, the Division completed the acquisition of the German life operations of a major international insurer making Canada Life Europe one of the top five companies in the German broker unit linked market and the German market leader in critical illness insurance.
- Maintained business volumes in the Republic of Ireland despite difficult stock market conditions including strong sales of the government-sponsored "Special Savings Incentive Accounts", which generated \$65 million of premium revenue.
- Developed a "Personal Retirement Savings Account" product in line with new pension regulations, which will begin to be sold in 2003.

The Irish Division offers a wide range of protection and wealth management products in the Republic of Ireland and Germany. Asset management services are also offered through our subsidiary, Setanta.

Protection		Wealth Management
Individual Life and Health Insurance	Group Life and Health Insurance	Investments and Pensions
Term Life, Regular Premium Unit Linked, Critical Illness	Short Term Single Premium Group Life, Disability Insurance	Regular Premium Pension Accumulation, Single Premium Pension Accumulation, Single Premium Fixed Payout Annuities, Single Premium Investments, Regular Premium Savings, Participating Endowments

The Division operates through 13 branch offices in the Republic of Ireland. With the recent acquisition on January 1, 2003, of the German operation of a major international insurer, we have expanded our presence with an office in Frankfurt as well as our existing Cologne office.

Our 240,000 policies in Ireland are serviced through two major distribution channels: Independent Brokers and the Financial Consultancy Division (direct sales). Following the acquisition, Canada Life Europe has become a new force in the German market with 120,000 policies and close to 7,000 broker contacts.

Financial Performance

Foreign currency fluctuations had an impact on the results of operations and financial position of the Irish Division in 2002. The average exchange rate for the Euro increased by 7% over 2001, which has resulted in a corresponding increase in the income statement and the year-end exchange rate increased by 17%, which affected the balance sheet and assets under administration.

Shareholders' net income was \$30 million for the year, a \$4 million or 12% decrease from 2001. Net income from wealth management was adversely impacted by poor stock markets, which have reduced new business volumes and investment and fee income and also required increases in policy liabilities for the "Unitized with Profit Fund" business. However, net income from our protection business increased by \$3 million, primarily as a result of favourable claims experience.

Irish Division's Shareholders' Net Income

(in millions of Canadian dollars)	2002	2001	2000	2002 versus 2001	
				\$ Change	% Change
Individual and group life and health insurance	\$ 16	\$ 13	\$ 11	\$ 3	23
Investments and pensions	14	21	11	(7)	(33)
Irish Division's shareholders' net income	\$ 30	\$ 34	\$ 22	\$ (4)	(12)

Summary Statement of Operations

(in millions of Canadian dollars)	2002	Restated*		As reported	
		2001*	2000*	2001	2000
Revenues					
Premiums	\$ 139	\$ 159	\$ 134	\$ 391	\$ 344
Net investment income	55	52	54	65	77
Fee and other income	95	92	74	58	57
	289	303	262	514	478
Expenditures					
Policyholder benefits	101	133	118	344	334
General operating expenses	88	74	68	74	68
Commissions	70	54	42	54	42
Other	(12)	(9)	(2)	(9)	(2)
	247	252	226	463	442
Net income before income taxes	42	51	36	51	36
Income tax provision	7	13	11	13	11
Net income	35	38	25	38	25
Participating policyholders' net income	5	4	3	4	3
Common shareholders' net income	\$ 30	\$ 34	\$ 22	\$ 34	\$ 22
Return on common shareholders' equity	10.1%	16.7%	13.7%	16.7%	13.7%

* With new actuarial standards introduced in 2001, the "Unitized with Profit Fund" business was reclassified from general fund to segregated fund business commencing in 2002. The transfer of this business has no impact on net income, but it changes year-over-year comparability of general and segregated funds premiums and assets. For ease of comparison, the 2001 and 2000 numbers are also shown on a comparable basis in the tables above and below.

Premiums, Premium Equivalents and New Deposits

(in millions of Canadian dollars)	2002	Restated*		As reported	
		2001*	2000*	2001	2000
Wealth management	\$ 112	\$ 130	\$ 107	\$ 362	\$ 317
Protection	27	29	27	29	27
General fund premiums	139	159	134	391	344
Segregated funds deposits	660	674	617	442	407
	\$ 799	\$ 833	\$ 751	\$ 833	\$ 751

Premiums and new deposits fell \$34 million or 4% from 2001. A decline in the sale of single premium equity backed products was offset somewhat by currency rate movements and strong sales of the government-sponsored "Special Savings Incentive Accounts", which generated premiums totalling \$65 million. Canada Life Europe generated premiums of \$23 million in 2002, a \$19 million increase over 2001. Sales of regular premium pension accumulation products have been particularly strong in Germany.

Investment Income, Fee Income and Other Income

Net investment income increased by \$3 million over 2001. The impact of the drop in stock markets was more than offset by increased investment income arising from growth in general fund assets.

Fee and other income rose by \$3 million over 2001. The higher fee income from business growth in Germany was partly offset by a decline in fee income in Ireland as a result of poor stock markets.

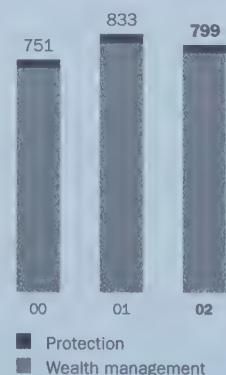
Expenditures

Policyholder benefits fell by \$32 million from 2001. Payments to policyholders fell \$22 million as a result of a lower level of guaranteed bond maturities than in 2001.

Commissions increased by \$16 million or 30% over 2001. This was due to commissions paid on German business.

General fund premiums and segregated funds deposits

(in millions of Canadian dollars)



General expenses increased by \$14 million or 19% over 2001. Expansion in Germany and the strengthening of the Euro against the Canadian dollar caused most of the increase. Expenses in Ireland increased by 6% in local currency.

The effective tax rate fell from 25% in 2001 to 17% in 2002. This reflects a general reduction in statutory tax rates in Ireland, with average statutory tax rates decreasing from 21% in 2001 to 16% in 2002.

Products and Services

Individual and Group Life and Health Insurance

Total individual protection premiums increased by \$5 million to \$89 million in 2002, including \$66 million of segregated funds deposits. We continue to be one of the leading writers of protection business in Ireland with an estimated market share of 10%. We focus on the segregated funds protection market, where margins are higher. During 2002, we added an innovative disability benefit to our product, which we believe will help us retain our strong position in this market.

Group products represent a very small part of the Irish Division's business. In 2002, premium income dropped by \$3 million from 2001. The competitive rates available in this market are too low to satisfy our targets for return and profit objectives. As a result, we expect to see revenues decline further over the coming years.

We sell both disability benefit and critical illness products in Germany, and these represent approximately 30% of our existing business in Germany. This business will be enhanced by the recent acquisition, increasing the existing number of protection policies from 4,000 to 40,000 and making Canada Life Europe the market leader in critical illness insurance.

Investments and Pensions

The Irish Division continues to focus on wealth management business as an area of growth. This business was impacted by the decline in global stock markets. However, the lower sales of single premium equity backed products were offset somewhat by the launch of an innovative guaranteed investment bond. In addition, regular premium income rose 16% over 2002. Sales of the government-sponsored "Special Savings Incentive Accounts" were particularly strong, generating \$42 million of new annualized premiums and \$65 million in premium income.

The company-sponsored pensions market is growing rapidly and continues to be the focus of our back office administration and information system developments. During 2002, we developed a "Personal Retirement Savings Account" product, in line with new pension regulation. Sales of this product will begin in 2003.

Investment and pensions represent 70% of our business in Canada Life Europe. 2002 was our second full year of operation in the German market, and the operation reported break-even income for the year. The recent acquisition increases the existing number of pension policies from 8,000 to 80,000 and will fuel further growth in this line of business.

Assets Under Administration

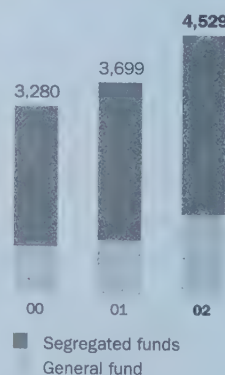
(in millions of Canadian dollars)	2002	Restated*		As reported	
		2001*	2000*	2001	2000
General fund	\$ 1,401	\$ 953	\$ 844	\$ 1,609	\$ 1,300
Segregated funds	3,128	2,746	2,436	2,090	1,980
	\$ 4,529	\$ 3,699	\$ 3,280	\$ 3,699	\$ 3,280

* As a result of the change to the classification of "Unitized with Profit Fund", the split of assets between general fund and segregated funds has changed since 2001. "Unitized with Profit Fund" assets were recorded in the general fund in 2001 at \$656 million (2000 - \$456 million).

Total assets increased \$830 million or 22% over 2001 as a result of business growth, increased capital to fund organic growth of the business and the impact of currency strengthening offset somewhat by the impact of stock market declines.

Assets under administration

(in millions of Canadian dollars)



Competitive Conditions

The life insurance market in Ireland is very mature with one of the highest penetration rates in the world. The larger companies hold a significant share of the market. Canada Life has the fifth largest life insurance operation in Ireland as measured by new business market share.

We operate in all segments of the market. We focus on higher margin products including segregated funds protection, pensions and single premium business. We write smaller amounts of group risk and term assurance business, which command lower margins.

During 2002, we successfully established ourselves in the broker market in Germany. The completion of the acquisition of the German life operations previously noted, will rapidly expand Canada Life's presence in this market. Canada Life Europe will be one of the top five companies in the broker unit linked market and the market leader in critical illness insurance.

Divisional Outlook

Our focus in Ireland for 2003 will continue to be on the major growth areas within wealth management. The buoyant pensions market is likely to expand further with recent changes to pension regulation. We have achieved rapid sales growth over a number of years in this market. We will continue to invest in our back office administration systems to enhance and to streamline customer service in this area. Value-added customer service, combined with Setanta's above-average investment performance, will support our growth plans in this market.

We are looking for investor confidence in stock market performance to improve during 2003, which we expect would bring a consequent increase in sales of single premium products. We will continue to offer a wide range of investment alternatives including our successful guaranteed investment bond.

In 2003, we will focus on integrating the acquisition in Germany into our existing operation and on the retention of the business, as well as building future growth. The Company is well positioned to benefit from strong growth in the private pensions market. The German acquisition also provides the opportunity to gain from operational efficiencies, as this business will be administered from Dublin using existing information systems. This is expected to lead to lower unit costs in both Ireland and Germany.

International and Reinsurance Division

Highlights

- **51% increase in life reinsurance premiums.**
- **Canada Life International Re Ltd. wrote several significant reinsurance arrangements.**
- **Slowed growth in pension premiums due to Brazil currency devaluation and election.**
- **For September 11, 2001 claims, continued to hold a prudent provision consistent with that established in 2001.**

This Division is organized into two areas of business offering the following products:

International		Reinsurance	
Protection	Wealth Management	Life Insurance	Accident and Health Insurance *
Individual Life, Individual Health, Group Life, Group Health	Pension Plans	Individual Life, Group Life, Financial	Catastrophe, Personal Accident, Worker's Compensation, Disability

* The Company is not selling any new accident and health insurance business but is only administering the run-off of existing business.

The International operation manages subsidiary operations in Puerto Rico and Brazil, as well as business in Hong Kong, Macau, Bermuda and Bahamas.

Through our Reinsurance operation we are a reinsurer of regular life insurance. We also manage the services of Canada Life International Re Ltd. Having previously acted as both a reinsurer and a retrocessionaire in the accident and health insurance business, we ceased writing new business in 2001 and now only administer the run-off of these contracts. We also administer a small number of financial reinsurance contracts. The majority of the Division's reinsurance business is in the United States.

Financial Performance

Shareholders' net income of \$24 million for 2002 increased by \$7 million or 41% over 2001 excluding the 2001 provision related to September 11, 2001 claims. The year-over-year growth in net income from our reinsurance operations arose from favourable mortality experience and improved morbidity experience in the run-off of our block of accident and health business. The small decline in net income from the International operations was the result of less favourable than expected experience in the Caribbean region.

International and Reinsurance Division's Shareholders' Net Income

(in millions of Canadian dollars)	2002	2001	2000	2002 versus 2001	
				\$ Change	% Change
International	\$ 4	\$ 5	\$ 5	\$ (1)	(20)
Reinsurance	20	12	12	8	67
International and Reinsurance Division's shareholders' net income before the following:	24	17	17	7	41
Provision for claims arising from September 11, 2001	—	(85)	—	85	100
International and Reinsurance Division's shareholders' net income (loss)	\$ 24	\$ (68)	\$ 17	\$ 92	135

Summary Statement of Operations

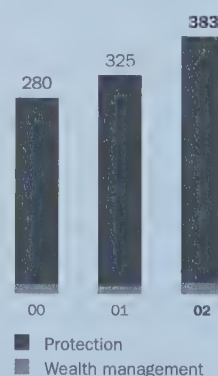
(in millions of Canadian dollars)	2002	2001	2000	2002 versus 2001	
				\$ Change	% Change
Revenues					
Premiums	\$ 381	\$ 324	\$ 277	\$ 57	18
Net investment income	67	66	61	1	2
Fee and other income	5	5	3	—	—
	453	395	341	58	15
Expenditures					
Policyholder benefits	291	401	228	(110)	(27)
General operating expenses	33	35	27	(2)	(6)
Commissions	96	60	53	36	60
Other	3	9	9	(6)	(67)
	423	505	317	(82)	(16)
Net income (loss) before income taxes	30	(110)	24	140	127
Income tax provision (recovery)	6	(42)	6	48	114
Net income (loss)	24	(68)	18	92	135
Participating policyholders' net income	—	—	1	—	—
Common shareholders' net income (loss)	\$ 24	\$ (68)	\$ 17	\$ 92	135

Premiums, Premium Equivalents and New Deposits

(in millions of Canadian dollars)	2002	2001	2000
International	\$ 145	\$ 155	\$ 124
Reinsurance			
Life	221	146	122
Accident and health	15	23	31
General fund premiums	381	324	277
Segregated funds deposits	2	1	3
	\$ 383	\$ 325	\$ 280

General fund premiums and segregated funds deposits

(in millions of Canadian dollars)



International Operations

Our International operations offer life, health and pension insurance products through multiple distribution channels including agents, insurance brokers and the Internet. The already established Beijing representative office continued to study market conditions in the People's Republic of China.

Premium income for the International operation was \$145 million in 2002, down \$10 million or 6% from 2001 on a comparative basis. Group sales in Puerto Rico declined with more focus on profitability. On January 2, 2002, the Puerto Rico subsidiary, Canada Life Insurance Company Inc. of Puerto Rico, became operational, thereby eliminating the 4% premium tax applied to branch operations in that jurisdiction. Group life premiums in Brazil grew in 2002 although overall premium revenue in Brazil declined by \$5 million or 25% due to the weakening of the Real and the uncertainty surrounding the October 2002 election in that country. During 2002, our Brazilian operations continued to focus on increasing our profile with targeted clients and building infrastructure to deliver superior customer service in the pension and group life markets. Participating premiums decreased by \$2 million in 2002, reflecting the ongoing planned run-off of the closed funds since demutualization.

Reinsurance Operations

Life Reinsurance

The Life Reinsurance operation expanded during 2002 with many new customer relationships. Life reinsurance premiums increased to \$221 million up 51% from \$146 million in 2001 with an associated increase in commissions, primarily due to strong growth in U.S. sales to our expanding client base. The return on investment that was priced for on new business sales increased during 2002, reflecting both increased opportunities in the U.S. life reinsurance marketplace and efficiencies gained from Canada Life International Re Ltd.

During 2002, Canada Life International Re Ltd. continued to provide traditional life reinsurance and retrocession to customers in North America and Europe, as well as supporting the Company's operations in all major territories.

Accident and Health Insurance

Within the accident and health reinsurance business, the Company has provided catastrophe reinsurance coverage to various insurance entities on a non-proportional excess-of-loss basis. The risks underlying the catastrophe reinsurance coverage include life insurance, accidental death and life and health insurance associated with worker's compensation. The results of this business were significantly impacted in 2001 by the effect of claims arising from the terrorist attack of September 11, 2001 in the United States for which we recorded an \$85 million provision, net of reinsurance recoveries, the Company's catastrophe protection and tax for the year ended December 31, 2001. During 2002, losses emerged in line with our original provision although our outlook for loss estimates has been favourably reduced by approximately 11%. As at December 31, 2002, we prudently continued to hold an overall provision consistent with the level established in 2001.

Due to the nature of risk inherent in this business, we ceased writing new accident and health (including catastrophe) reinsurance business shortly after September 11, 2001. The existing catastrophe reinsurance coverage continues to run-off over time. Relative to the coverage in place at September 11, 2001, our in-force catastrophe reinsurance coverage has reduced by approximately 96% by December 2002 and the remaining 4% will reduce gradually over 2003 and 2004 to nil by June 30, 2004.

During 2002, the run-off of contracts acquired from Crown Life in 1999 continued to progress as anticipated, causing the drop in premium income from \$23 million in 2001 to \$15 million in 2002 and a corresponding decrease in policyholder benefits associated with this business. Overall claims experience on these run-off contracts was favourable during 2002.

Assets Under Administration

(in millions of Canadian dollars)

	2002	2001	2000
General fund	\$ 1,336	\$ 948	\$ 741
Segregated funds	5	4	4
Other assets	14	13	—
	\$ 1,355	\$ 965	\$ 745

Total assets increased by \$390 million or 40% from 2001. The increase was due to general growth in the business, particularly life reinsurance, and a higher allocation of capital to this Division to fund organic growth and liability for claims.

Competitive Conditions

We continued to focus on business expansion in Brazil, which is viewed as a strong emerging market for group pension and group life products in particular.

The Life Reinsurance operation assumes individual mortality risk from our ceding company clients on both a coinsurance and a yearly renewable term basis. The risks assumed by the Life Reinsurance operation are located almost entirely in the United States. The U.S. life reinsurance marketplace has approximately 15 significant participants, a number that has reduced recently due to consolidation. At the end of 2001, the Company ranked 13 in this market with a market share in excess of 2%.

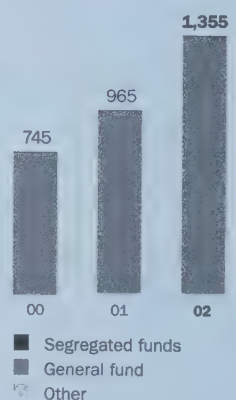
Divisional Outlook

We will look to focus the growth in our Caribbean operations and to increase profitability through improved underwriting and claims management practices. In Brazil, we anticipate growth in all lines of business as the economic and political climates stabilize, and corporations focus on employee benefit plan reviews and enhancements.

During 2003, we will focus on growing our Life Reinsurance operation through quality-driven offerings to our expanding client base. Enhanced abilities to analyze mortality against underwriting programs will allow selective pricing advantages. Information technology systems enhancements will allow more efficient and timely client service.

Assets under administration

(in millions of Canadian dollars)



Investment Division

Highlights

- Quality of bond portfolio remained high. Average quality rating of A+ was unchanged from last year.
- Total losses on impaired investments of \$31 million in 2002 increased slightly from \$30 million in 2001.
- Ratio of net impaired assets to total general fund net invested assets decreased to 0.3%, down from 0.5% in 2001.
- General fund invested assets increased by \$3 billion, up 9% from 2001.
- Excess of fair value over carrying value was \$2,398 million, an increase of \$867 million over 2001.

Operations

Operating out of Toronto, London and Dublin², the Company's Investment Division is a global investment services organization responsible for managing the Company's invested assets across all business units. The Toronto group develops investment policy for worldwide operations and manages the North American based assets. London and Dublin personnel directly manage the U.K. and Irish investment operations respectively, to capitalize on the asset selection and management expertise within these local markets.

Mandate

The Investment Division objectives are to support the Company's objectives with regard to growth, earnings and financial strength; to achieve top-quality investment performance by consistently exceeding benchmarks within appropriate risk/reward parameters; and to protect the contractual benefits of the Company's customers and policyholders.

The Investment Division's role is primarily that of risk manager. By undertaking risk, returns are increased through disciplined, systematic processes executed by experienced staff. Considerable effort is directed toward total portfolio results and asset/liability matching, focusing on key areas where sustainable value can be added. Our objectives include maximizing overall returns on investments while considering the characteristics of the liabilities, regulatory requirements, investment goals and risk parameters in an efficient and effective manner. Results are monitored through key performance measures, including return on invested assets, and are compared against benchmarks established for invested assets both in the operating funds and corporate equity.

Divisional Outlook

Looking forward to 2003, the Investment Division will continue to focus on providing industry leading investment management services by optimizing investment returns within acceptable risk/reward parameters and enhancing customer service. The ongoing success in maintaining a high-quality investment portfolio will continue to enable the Company to meet policyholders' future needs while contributing to the return on shareholders' equity.

² The Canada Life Assurance Company's principal operating investment subsidiaries are:

- Canada Life Mortgage Services Ltd. (CLMS), which specializes in originating and servicing mortgage investment loans for institutional clients.
- Setanta Asset Management Limited, which manages the assets in the Republic of Ireland on behalf of the Company.

In addition, the Company owns 40% of Laketon Investment Management Ltd. (Laketon), which manages assets on behalf of the Company and third parties.

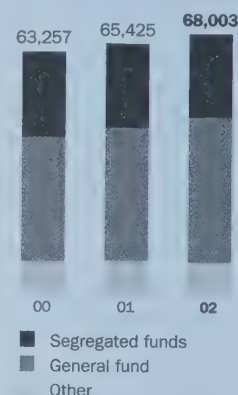
Financial Position

Assets Under Administration

(in millions of Canadian dollars)	2002	2001	2000	2002
				versus 2001 % Change
Invested assets	\$ 36,474	\$ 33,445	\$ 31,123	9
Other	1,717	1,506	1,613	14
General fund assets	38,191	34,951	32,736	9
Segregated funds assets	21,899	22,090	22,383	(1)
	60,090	57,041	55,119	5
Other assets under administration	7,913	8,384	8,138	(6)
	\$ 68,003	\$ 65,425	\$ 63,257	4

Assets under administration

(in millions of Canadian dollars)



General Fund Invested Assets

Invested assets

(in millions of Canadian dollars)	2002	%	2001	%	2000	%
Bonds	\$ 22,317	61	\$ 19,046	57	\$ 17,681	57
Mortgages	7,622	21	7,996	24	7,583	24
Common and preferred stocks	2,073	6	2,475	7	2,002	6
Real estate	1,066	3	941	3	851	3
Policy loans	1,113	3	1,070	3	988	3
Cash, cash equivalents and short-term investments	1,159	3	1,142	3	1,424	5
Other investments	1,124	3	775	3	594	2
Total invested assets – carrying value	\$ 36,474	100	\$ 33,445	100	\$ 31,123	100
– fair value	\$ 38,872		\$ 34,976		\$ 32,786	

The Company's general fund invested assets increased to \$36,474 million in 2002 from \$33,445 million in 2001. The asset mix shifted slightly as cash flow to the general fund was invested in the bond portfolio. These assets support \$31,555 million in actuarial and other liabilities and \$4,919 million in shareholders' equity and subordinated debentures of the Company. The Company has established an investment portfolio that reflects a generally conservative investment philosophy, the characteristics of the Company's liabilities, and market opportunities and expectations.

Bonds

Bond portfolio quality

(in millions of Canadian dollars)	2002	%	2001	%	2000	%
AAA	\$ 7,798	35	\$ 6,200	32	\$ 6,760	38
AA	3,281	15	2,966	16	2,630	15
A	6,085	27	5,147	27	4,617	26
BBB	4,289	19	3,915	21	3,025	17
Below BBB/unrated	864	4	818	4	649	4
Total bonds – carrying value	\$ 22,317	100	\$ 19,046	100	\$ 17,681	100
– fair value	\$ 23,982		\$ 19,866		\$ 18,421	
Average bond quality	A+		A+		AA–	

The Company's bond portfolio was 61% of the total invested assets of the general fund. The bond portfolio was comprised of 37% government bonds and 63% corporate bonds. The portfolio is diversified within each of the four major countries in which the Company operates. To support the business in each division, as at December 31, 2002, the bond portfolio was distributed as follows: 36% in Canada, 29% in the United Kingdom, 28% in the United States, 4% in the Republic of Ireland and 3% in International and Reinsurance. The excess of fair value over carrying value at December 31, 2002 was \$1,665 million (\$820 million for 2001).

The Company's policy is to maintain a bond portfolio having a minimum weighted average rating of A, within acceptable risk levels. Bonds are rated by independent rating agencies where available, or internally on a basis comparable to that used by independent rating agencies. In addition, the Investment Policy limits the permitted proportion of high yield debt investments that are below Investment Grade (below the BBB range) to 5% of consolidated bonds and mortgages in consideration of the higher risk profile of these types of investments.

The quality of the Company's bond portfolio continued to be high throughout the year. The average rating for our \$22,317 million bond portfolio remained at A+ at year-end, unchanged from the previous year.

Mortgages and Real Estate

<i>(in millions of Canadian dollars)</i>	2002	%	2001	%	2000	%
Apartment	\$ 2,872	38	\$ 2,888	36	\$ 2,573	34
Retail	2,135	28	2,366	30	2,519	32
Industrial	1,262	17	1,349	17	1,255	17
Office	956	12	1,024	13	1,029	14
Other	397	5	369	4	207	3
Total mortgages – carrying value	\$ 7,622	100	\$ 7,996	100	\$ 7,583	100
– fair value	\$ 8,417		\$ 8,514		\$ 7,994	
Total real estate – carrying value	\$ 1,066		\$ 941		\$ 851	
– fair value	\$ 1,196		\$ 1,023		\$ 942	

As at December 31, 2002, the mortgage portfolio represented 21% of the general fund invested assets of the Company. The portfolio is well diversified across property types as detailed in the chart above and is primarily located in Canada and the United States. The fair value of mortgages exceed carrying value as at December 31, 2002 by \$795 million (\$518 million for 2001).

The Company actively manages the asset quality of its mortgage portfolio. Mortgages are rated using a formal internal rating system. At the end of 2002, the mortgage portfolio quality was high, with a weighted average rating excluding government-insured mortgages of \$968 million (\$875 million for 2001) of A. A weighted average minimum rating excluding government-insured mortgages of BBB– has been set for the mortgage portfolio.

As at December 31, 2002, 3% of the general fund invested assets were held in real estate. The real estate portfolio is diversified across various property types and is primarily located in Canada and the United Kingdom. The fair value of real estate exceeded carrying value as at December 31, 2002 by \$130 million (\$82 million for 2001).

Common and Preferred Stocks

Common and preferred stocks by jurisdiction

<i>(in millions of Canadian dollars)</i>	2002	%	2001	%	2000	%
Canada	\$ 518	25	\$ 543	22	\$ 387	20
United States	456	22	459	19	306	15
United Kingdom	947	46	763	31	802	40
Republic of Ireland	152	7	710	28	507	25
Total common and preferred stocks – carrying value ¹	\$ 2,073	100	\$ 2,475	100	\$ 2,002	100
– fair value	\$ 1,881		\$ 2,571		\$ 2,418	

¹ Preferred stocks comprise \$51 million or 3% (\$62 million or 3% for 2001) of the carrying value and \$52 million (\$63 million for 2001) of the fair value of stocks.

As at December 31, 2002, common and preferred stocks comprise 6% of the general fund invested assets compared to 7% in 2001. The decrease of \$402 million from 2001 is primarily due to the change in classification for certain assets between general fund and segregated funds. In 2001, \$656 million of "Unitized with Profit Fund" stocks were recorded as general fund assets in Ireland. These are now included in segregated funds assets. The carrying value of common and preferred stocks exceeded fair value as at December 31, 2002 by \$192 million (fair value exceeded carrying value by \$96 million for 2001).

The stock portfolio is well diversified by jurisdiction, industry classification and issuer. As at December 31, 2002, the largest issuer represented 2% (2% in 2001) of the common and preferred stock portfolio based on the carrying value of those securities.

Fair Value

The fair value of invested assets exceeded their carrying value by \$2,398 million as at December 31, 2002, compared to \$1,531 million in 2001. Total fair value grew to \$38,872 million from \$34,976 million in 2001. The increase in fair value year over year reflects the increase in assets, as well as lower interest rates, which resulted in higher bond and mortgage fair values in 2002, offset by the impact of weaker stock markets. Changes in the fair value of assets supporting the actuarial and other liabilities of the Company's operating funds generally will not result in a corresponding change in net income due to the Company's asset/liability management practices. However, the excess of fair value over carrying value, as well as the net deferred realized gains, on assets supporting shareholders' equity and subordinated debentures will in time be amortized to net income. The excess totalled \$191 million in 2002 compared to \$360 million in 2001.

Impaired Assets

Impaired assets and provisions

	2002			2001			2000		
	Gross carrying value	Provision	Net carrying value	Gross carrying value	Provision	Net carrying value	Gross carrying value	Provision	Net carrying value
<i>(in millions of Canadian dollars)</i>									
Bonds	\$ 136	\$ 53	\$ 83	\$ 186	\$ 48	\$ 138	\$ 61	\$ 20	\$ 41
Mortgages and real estate	12	3	9	36	18	18	55	27	28
Common and preferred stocks	1	—	1	—	—	—	17	3	14
Other	19	3	16	24	5	19	5	2	3
Total	\$ 168	\$ 59	\$ 109	\$ 246	\$ 71	\$ 175	\$ 138	\$ 52	\$ 86
Net impaired assets to total general fund net invested assets			0.3%			0.5%			0.3%

Provisions for losses on invested assets are established when an asset or portfolio of assets is impaired as a result of deterioration in credit quality to the extent that timely realization of the carrying value of assets and related investment income cannot be assured. The carrying value of an impaired asset is reduced to the net realizable value of the asset at the time impairment is recognized, and a corresponding provision is charged to the income statement.

The net carrying value of impaired investments decreased to \$109 million at the end of 2002, a drop of \$66 million or 38% compared to 2001. The reduction was largely due to recoveries, redemptions and sales of impaired bonds and mortgage portfolios.

Segregated Funds Assets

The Company manages segregated funds assets on behalf of policyholders under various arrangements. These assets are carried at market value. Segregated funds assets decreased by less than 1% in 2002 from 2001 as growth from net deposits in Canada, the United Kingdom and Ireland was offset by the impact of the declines in global stock markets. In 2001, "Unitized with Profit Fund" stocks of \$656 million were recorded as general fund assets in Ireland. These are now included in segregated funds assets.

Other Assets Under Administration

The Company manages, or administers for fees, other assets on behalf of third parties, primarily group pension and RRSP plans in Canada and unit trust arrangements in the United Kingdom. These assets are not owned by the Company and are excluded from both the general fund and segregated funds of the Company.

Actuarial Liabilities

Actuarial liabilities represent the amounts required, together with future premiums and estimated investment income, to provide for the estimated future benefits, policyholder dividends, commissions and maintenance expenses on policies in force. The actuarial liabilities constitute those financial statement amounts potentially subject to the highest level of measurement uncertainty as their determination is complex, reflecting the diversity of the underlying products and product features as well as a variety of best estimate assumptions. Because of the risk of mis-estimation in determining the amounts for these liabilities, the best estimate assumptions are adjusted to include margins for adverse deviation, which provide for unfavourable deviations from expected experience. Due to the long-term nature of actuarial liabilities and the incorporation of margins for adverse deviation, a fluctuation in experience compared to any one assumption in the near term would not normally be expected to have a significant effect on the financial results of the Company. *(Assumptions are described in note 3 to the Consolidated Financial Statements.)*

As noted above, the assumptions used in the calculations are based on best estimates and include a margin for adverse deviation. The range of these margins is set out in the valuation standards issued by the Canadian Institute of Actuaries (CIA). Given the diversity and size of the Company's portfolio, the risk of deviation being significantly different from expected is relatively low so that margins at the low end of the permissible range as prescribed by the CIA guidelines would often be justifiable. However, we frequently follow a more prudent practice of establishing margins generally close to the middle of the range.

The composition of actuarial liabilities is shown below:

Actuarial liabilities (in millions of Canadian dollars)	2002	%	2001	%	2000	%
General fund						
Participating insurance and annuities	\$ 6,254	22	\$ 5,680	21	\$ 5,215	20
Non-participating:						
Annuities	16,662	57	15,771	58	14,958	59
Individual life and health insurance	3,134	11	3,773	14	3,514	14
Group life and health insurance	3,000	10	1,945	7	1,794	7
	\$ 29,050	100	\$ 27,169	100	\$ 25,481	100

(A continuity of changes in general fund actuarial liabilities and a summary of the distribution of general fund actuarial liabilities by business segment and by major line of business are included in notes 9(a) and 9(b) respectively to the Consolidated Financial Statements.)

Capital Resources and Liquidity

Capital and Capital Adequacy

Capital strength is important for the protection of policyholders and shareholders. Capital strength also helps to maintain strong credit ratings and allows us to take advantage of business opportunities. However, capital levels that are too high may lead to poor returns on shareholders' equity. A balance is maintained between the mix and level of capital to meet differing objectives.

Capital

(in millions of Canadian dollars)	2002	%	2001	%	2000	%
Bank loans	\$ 3	—	\$ 3	—	\$ —	—
Subordinated debentures	550	11	550	14	550	16
Canada Life Capital Securities	450	9	—	—	—	—
Total debt	1,003		553		550	
Participating policyholders' equity	48	1	40	1	44	1
Shareholders' equity						
Preferred shares	145	3	145	4	—	—
Common shares	317	6	317	8	317	9
Retained earnings	3,457	70	2,921	73	2,575	74
Total shareholders' equity	3,919	79	3,383	85	2,892	83
Total debt and equity	\$ 4,970	100	\$ 3,976	100	\$ 3,486	100
Total debt plus preferred shares as a percentage of total debt and equity	23.1%		17.6%		15.8%	
MCCSR ratio	202%		191%		197%	

Most of the Company's capital has been generated from retained earnings and this, together with the issuance of Canada Life Capital Securities in March 2002, raised the debt-to-capital ratio to 23.1% at year-end, up from 17.6% at the end of 2001 and close to our target of 25%.

The Company must meet the regulatory minimum capital and solvency requirements in each jurisdiction in which it operates. In Canada, the Company is regulated by the Office of the Superintendent of Financial Institutions, Canada, which requires insurance companies to maintain minimum levels of capital calculated in accordance with the Minimum Continuing Capital and Surplus Requirements (MCCSR). The MCCSR formula prescribes the calculation of Available Capital for regulatory purposes and of the amounts of Required Capital to be maintained, based on the risk characteristics of the underlying assets and liabilities held by the Company. The ratio of Available Capital to Required Capital is the MCCSR ratio, with a minimum required ratio of 150%.

The Company's ratio at December 31, 2002 was 202%, just above our target range of 175% to 200% and well in excess of the minimum required level. The increase over 2001 was due to growth in retained earnings and the issuance of Canada Life Capital Securities in March 2002 net of the additional capital required for our business acquisitions completed in 2002. The ratio declined to approximately 197% after December 31, 2002 as a result of the business acquisition that was completed on January 1, 2003.

To assess capital adequacy and financial strength under adverse conditions, we perform Dynamic Capital Adequacy Testing on an annual basis. The process analyzes the Company's potential future financial condition over a five-year period by reviewing the impact of a number of adverse

business scenarios, which include declining interest rates, decreasing stock market levels, worsening mortality, higher lapse rates, and morbidity experience and increased expenses. The results of the testing completed in 2002 confirmed the Company's current financial strength and its ability to withstand significant possible future adversity.

Source of Funds

The primary source of funds for the Company is cash provided by operating activities including premiums, net investment income and fees. These funds are used primarily to pay policyholder benefits including claims and expenses. Net cash flows generated from operating activities are generally invested to support future payment requirements and are used to pay dividends to shareholders. In addition, the Company may raise funds from time to time through the issue of debt or equity securities to finance growth, acquisitions or other needs.

During 2002, the Company generated net cash flow of \$74 million. Operating activities contributed \$1,020 million, financing activities generated \$340 million and investing activities used \$1,342 million. Two significant items in 2002 that impacted cash flow were the issuance of Canada Life Capital Securities, which raised \$445 million net of issuance costs, and the acquisition of two businesses, which added \$302 million in operating funds.

Liquidity

Our primary requirements for liquidity are for payment of benefits and expenses as described above, to satisfy debt obligations and to pay dividends to shareholders. We generally maintain a conservative liquidity position and actively manage capital levels throughout the Company. As we are required to maintain solvency and capital standards in the various countries in which we operate, we have an asset/liability matching program and actively manage the diversification, duration and credit quality of our investments to ensure the Company is able to meet its obligations.

The Company's ability to meet its cash requirements and to pay dividends on the common and preferred shares depends on the receipt of dividends and other payments from its principal operating subsidiary, The Canada Life Assurance Company (CLA). CLA's insurance subsidiaries and branches are required to maintain solvency and capital standards in the jurisdictions in which they operate. These regulatory standards may effectively restrict the amount of dividends, distributions or other payments that may be made by such subsidiaries and branches to CLA and to the Company.

Based on the Company's historical cash flows and current financial performance, management believes that the cash flow from the Company's operating activities will continue to provide sufficient liquidity for the Company to satisfy debt service obligations and to pay other expenses.

Non-Insurance Contractual Obligations, Commitments and Off-Balance Sheet Arrangements

The following table presents the principal portions of our contractual cash flow commitments on subordinated debentures and operating leases. This table does not reflect our obligations under other capital instruments or for our insurance, annuity and guaranteed products contracts.

	Payments due by period			
	Under 1 year	1-3 years	4-5 years	After 5 years
Subordinated debentures	\$ —	\$ —	\$ —	\$ 550
Operating leases	64	101	57	102

In addition to the above, in the normal course of operations we have entered into derivative financial instruments, which are discussed in more detail under the Risk Management section below. The Company has not utilized any off-balance sheet special purpose entities as at December 31, 2002.

Risk Management

Overview

The objective of Risk Management is to manage the risks associated with the business in order to protect policyholder interests and to enhance shareholders' value at an overall acceptable level of risk. The Company manages risk through a comprehensive risk management framework, which includes the identification, assessment, mitigation and monitoring of risks.

The responsibility for risk management is shared between the Board of Directors (the "Board") and management.

The Company has established a Risk Management Committee comprised of senior management responsible for ensuring appropriate risk management policies and procedures have been established and for recommending these policies to the Board for approval. The Committee also ensures that appropriate monitoring and reporting procedures are in place and provides oversight with respect to compliance with risk management policies. The Committee reports quarterly to the Audit and Risk Management Committee, which is comprised entirely of non-management Board Directors.

The Company has written corporate policies that set out the principles upon which the Company is prepared to undertake risks. These policies support OSFI's Standards of Sound Business and Financial Practices and define the types of risks the Company is prepared to undertake, establish limits within which business units must operate, and set out the types of control and monitoring programs that are required to be in place. Adherence to these policies is monitored on a global basis at least annually. Corporate policies are reviewed and re-approved at least annually by the Risk Management Committee and by the Audit and Risk Management Committee.

Risk Categories

The Company manages risk under the following major risk categories:

Asset Risk	Insurance Risk	Business Risk
<ul style="list-style-type: none"> Interest Rate Risk Market Risk Foreign Currency Risk Credit Risk Liquidity Risk 	<ul style="list-style-type: none"> Product Design and Pricing Risk Underwriting Risk Policy Liabilities and Claims Risk 	<ul style="list-style-type: none"> Operational Risk Legal and Regulatory Risk Strategic Risk

Risk Mitigation and Monitoring

Asset Risk

Asset Liability Management

The goal of the Company's asset liability management program is to maximize long-term economic value subject to a set of constraints consistent with the structure of the insurance liabilities, which are segmented according to major line of business. Canada Life has consistently taken the "Prudent Person" approach toward asset liability management. The Company's policy is to invest in assets that closely match the liabilities in terms of liquidity, exposure to changes in interest rates, real estate and equity markets and foreign exchange rates. Products offering interest rate and term guarantees, such as annuities and pension products, are supported mainly by bonds and mortgages. Products that allow adjustments to credited interest rates or premiums, such as participating whole life and Universal Life insurance, are supported by a broader range of assets including real estate and equities.

The Company's Investment Policy is designed to produce returns and risk exposures consistent with Canada Life's business requirements. It establishes limits and ranges for asset mix, asset quality, liquidity and exposure to interest rates, market values and foreign currency exchange rates, within which each line of business must operate. Adherence to these limits is monitored regularly by senior management and reported at least quarterly to the Board.

Interest Rate Risk

Interest rate risk is the risk of loss due to the exposure of assets and liabilities to fluctuations in interest rates, including the risk of loss due to the effect of changing interest rates if the future cash flows from the assets supporting liabilities do not match the timing and amount of the expected policy payments.

Interest rate risk is managed through the use of a matching policy. The Company maintains separate funds of assets to support associated liabilities by line of business and by country. The expected cash outflows from the liabilities are matched, wherever possible, with equally predictable cash inflows from invested assets through a defined asset/liability management process. The degree of mismatch between assets and liabilities is a measure of interest rate risk and is managed within prescribed limits at the fund level.

Proper matching of assets and liabilities is particularly critical for the funds supporting annuity and pension products, which constitute approximately 59% (58% in 2001) of the Company's general fund actuarial liabilities. Interest rate risk is measured through the use of duration mismatch and interest rate scenario analysis.

Duration mismatch

Duration measures the sensitivity of the economic value of assets and liabilities to changes in interest rates. Duration mismatch is the difference between the duration of assets and the duration of liabilities. When the duration of assets exceeds the duration of liabilities, an increase in interest rates will result in a decrease in economic value. When the duration of assets is less than the duration of liabilities, an increase in interest rates will result in an increase in economic value. The duration mismatch associated with annuity and pension products for the years ended December 31, 2002 and 2001 was 0.06 years and 0.02 years respectively. This level of mismatch falls within limits established under the Investment Policy for managing this risk.

Interest rate scenario analysis

In addition to duration mismatch, interest rate risk is also measured in terms of the effect of interest rate changes on the net economic value or Net Present Value (NPV) of assets and liabilities. The NPV sensitivity to interest rate changes is analyzed through various interest rate scenarios.

The NPV of future asset cash flows less future liability cash flows is determined using the interest rates in effect at the reporting date. The NPV is then recalculated assuming an immediate 1% parallel increase in interest rates and an immediate 1% parallel decrease in interest rates. The resulting change in NPV represents a measure of the degree of interest rate risk associated with a 1% parallel change in interest rates. (See note 5(a)(ii) to the Consolidated Financial Statements for the impact on NPV of a 1% parallel change in interest rates.)

For the life insurance business, the Company guarantees cash surrender values on most of the life insurance products. The Company would be exposed to losses if policyholders surrendered their policies during a period when interest rates were rising significantly. The Company has also provided minimum interest rate guarantees on certain variable annuity and insurance contracts and, as such, is exposed to losses if interest rates fall below certain levels. To cover this risk, derivative contracts are used to hedge some of the exposure, and prudent provisions are made for these guarantees in the actuarial liabilities. Specified amounts of capital are held to cover these risks as required by MCCR.

The anticipated investment return on the assets supporting Company equity may be subject to decline if interest rates fall below certain levels. To manage this risk, the invested assets are diversified as required by the Investment Policy, by investment type, limit, quality and geographic location. In addition, derivative contracts are used to manage some of the exposure.

Market Risk

Market risk is the risk of loss that results from changes in the market value of the Company's portfolio of securities, both on- and off-balance sheet, as well as fluctuations in the value of mortgages and real estate holdings.

Changes in market value impact the return on general fund assets and fee income earned on segregated funds. The Company's exposure to market risk is managed through established limits relative to the amount and type of investments supporting liabilities and shareholders' equity. General fund investments in stocks and real estate represent a small portion of the Company's assets under administration and are typically held against shareholders' equity or to support a fraction of long-term general fund policy liabilities. Holdings are also diversified by industry type, corporate group and different geographic markets. Adherence to these limits is monitored regularly and the results are reported quarterly to the Board.

Changes in market value also impact liabilities associated with investment related guarantees on segregated funds. The Company's investment-related guarantees on segregated funds include minimum death benefit and minimum maturity benefit guarantees. Exposure to guarantees on segregated funds is managed through product design and setting aside appropriate amounts within liabilities and capital to support these guarantees. Adherence to these limits is monitored regularly.

Foreign Currency Risk

Foreign currency risk is the risk of loss that results from changes in foreign currency exchange rates.

As a multinational company that manages operations in many currencies and reports its results in Canadian dollars, we have an ongoing exposure to foreign currency risk. The exposure of the operating funds to this risk is managed by closely matching operating fund assets and liabilities by currency in each country of operation. This, together with the use of foreign exchange contracts, allows the Company to manage the risk associated with fluctuations in foreign currency exchange rates.

The Company also holds assets supporting its equity in the currencies of each jurisdiction in which it operates. This represents an exposure to movements in foreign currency rates, as there are virtually no foreign currency liabilities matching these assets. The amount of assets supporting equity that is denominated in each of these foreign currencies is monitored closely and the exposure is managed by hedging a portion of these foreign denominated assets through the use of foreign exchange contracts as described in the Derivative Financial Instrument Management section. (See note 5(b) to the Consolidated Financial Statements for the impact on retained earnings and net income of a 1% strengthening of the Canadian dollar relative to the currencies in the jurisdictions in which the Company operates.)

The impact of the changes in currency rates in 2002 relative to 2001 on certain selected financial information is set out in the following table:

Impact of foreign currency fluctuations in 2002 compared to 2001

(in millions of Canadian dollars except percentage amounts)	Change in average currency rate relative to the Canadian dollar	Change in year-end currency rate	Increase (decrease)							
			General fund premiums	Segregated funds deposits	Total	Shareholders' net income	General fund assets	Segregated funds assets	Total	Shareholders' equity (CTA)
British pound	5.4%	9.5%	\$ 77	\$ 79	\$ 156	\$ 9	\$ 886	\$ 924	\$ 1,810	\$ 112
Euro	6.5%	16.9%	9	40	49	2	217	452	669	46
U.S. dollar and other	1.3%	(0.6)%	24	3	27	—	(105)	(4)	(109)	(6)
Total			\$ 110	\$ 122	\$ 232	\$ 11	\$ 998	\$ 1,372	\$ 2,370	\$ 152

Credit Risk

Credit risk is the risk of loss that arises when debtors, counterparties or intermediaries are unable or unwilling to fulfil their obligations and includes the risk associated with the concentration of investment holdings in specific jurisdictions, industries or investees.

Investments

The objective of the Company's Investment Policy is to maintain a well-diversified portfolio of relatively high overall quality. This objective is met through policies and procedures, which guide the day-to-day management of credit exposure. Canada Life has a well-established credit evaluation process that aims to provide superior risk adjusted spreads, to protect invested capital and to preserve underlying cash flows.

The Investment Policy sets limits on the quality of both on- and off-balance sheet assets. Counterparty credit limits have been established to minimize exposure to potential losses. Weighted average rating minimums of A and BBB- as defined by Standard & Poor's have been set for the bond and mortgage portfolios respectively. The combined credit quality of all credit instruments, including the credit equivalent exposure to derivatives, is required to be at least A.

Concentration limits have also been established to limit the level of investment that can be made in any single entity or group of related entities by issuer, ratings, industry sector and geographic location. Adherence to this policy is monitored regularly and the results are reported quarterly to the Board.

Reinsurance

The Company has a variety of reinsurance business arrangements in place, whereby the Company accepts reinsurance from other insurers and reinsurers and uses reinsurance to manage Underwriting and Liability Risk. Reinsurance arrangements do not relieve the Company of its liability as the primary insurer. Therefore, the Company is exposed to credit risk with respect to amounts ceded to reinsurers and retrocessionaires. In order to minimize the exposure to this risk, the Company generally enters into reinsurance contracts with properly licensed, well-established and financially strong reinsurers and has developed a Reinsurance Policy that sets out counter party exposure limits and minimum credit-rating criteria. Adherence to this policy is monitored on a regular basis. At December 31, 2002, the Company had ceded 4.4% or \$1,431 million (4.1% or \$1,223 million at December 31, 2001) of its policy liabilities to third parties.

The Company has made provisions in its Consolidated Balance Sheets for credit losses in two ways:

- (i) specific provisions for assets that are currently impaired have been included through reductions in the carrying values of the underlying assets; and
- (ii) provisions that are included in the actuarial liabilities for assets that may become impaired in the future.

(The amounts for these provisions are identified in note 7(b) to the Consolidated Financial Statements.)

Liquidity Risk

Liquidity risk is the risk that there are insufficient funds available to honour all anticipated cash flow commitments (both on- and off-balance sheet) as they fall due and any unanticipated cash demands.

The Company's objective with respect to liquidity is to ensure that it is able to withstand all types of demand for cash. There are two types of liquidity that may be required under various circumstances:

- Operating liquidity is required to meet day-to-day cash outflow obligations (e.g., payment of dividends, claims, expenses). Operating liquidity risk is managed by matching the amount, currency and duration of cash flows relating to assets and liabilities, within preset limits. The level of this mismatch is regularly monitored and includes the effect of all outstanding derivative financial instrument positions. Additionally, the Company maintains an appropriate level of liquidity by ensuring that a prescribed percentage of its assets is held in marketable investments.
- Strategic liquidity is required to meet long-term obligations or to withstand cash demand under adverse conditions (e.g., prolonged mass liability surrenders or maturities, major investment defaults, unexpected economic and market conditions). The strategic liquidity measure is based on an industry accepted model and is calculated under both immediate and ongoing stress scenarios. The Company's policy is to maintain liquid assets at a level above a risk adjusted calculation of those liabilities that are subject to scheduled and unscheduled withdrawals.

(Sources of liquidity are disclosed in note 5(d) to the Consolidated Financial Statements.)

Derivative Financial Instruments

Derivative financial instruments are financial contracts that derive their value from the value of the underlying financial assets, interest rates, foreign currency rates or stock/bond/commodity indices. The increased volatility and complexity of the financial markets over the last two decades have led to increased risk levels because of exposures to fluctuations in credit, interest rates, equity prices and foreign currency rates. These increased risk levels have necessitated the development of a sophisticated, diverse, cost effective and liquid derivative market that derives its values from the changes in the values of the underlying financial assets, interest rates, foreign currency rates or stock/bond indices.

Derivatives include financial futures, forwards, options and swaps, or any combination thereof. The Company is a limited end-user of derivatives and is not a creator or dealer in these instruments. Derivative instruments are used for both hedging and non-hedging purposes such as asset/liability, interest rate, equity market price or foreign currency exchange management; or to synthetically replicate an investment for those situations where it is deemed to be more effective from a cost and flexibility perspective as compared to directly investing in that particular type of investment.

The Company has established policies to limit the size and type of derivative transactions, counterparty exposure in respect of both the notional amount outstanding and the mark-to-market amount. As well, derivative transactions are subject to authorization limits for specific personnel. Adherence to these policies is monitored regularly and results are reviewed by senior management at least monthly. Results are also reported to the Audit and Risk Management Committee quarterly. As at December 31, 2002, the Company had \$5,133 million (\$4,159 million at December 31, 2001) in notional amount of derivative contracts outstanding and a credit equivalent amount of \$221 million (\$182 million at December 31, 2001). *(Note 20 to the Consolidated Financial Statements describes the Company's exposure to derivative financial instruments in greater detail.)*

Insurance Risk

Product design and pricing risk

Product design and pricing risk is the risk that the price levied for a product, service and/or block of insurance products is insufficient to ensure an adequate return on capital and includes the risk of poorly designed products due to insufficient market research or the impact that a new product introduction will have on the sale of existing or other new products.

The process of pricing products includes the estimation of many factors such as future investment yields, mortality and morbidity experience, expenses, policy lapse rates and taxes. Pricing risk is the risk that actual experience in the future will not develop as estimated at the time of pricing the products. Some products are designed such that adjustments to premiums or benefits can be made for variations in experience, while for other products no such adjustment is possible.

The Company has developed the Product Design and Pricing Policy to manage this risk. The policy specifies standards for pricing methods, the setting of assumptions, profit margin objectives, required scenario analysis, documentation and approval. Pricing assumptions are compared against actual experience on an ongoing basis. Senior financial managers in each operating division are responsible for ensuring that the design and pricing of each new product, and revisions to assumptions for existing products, are consistent with the Policy.

Entry into new lines of business, unusual risks not currently offered, or deviations from the Product Design and Pricing Policy are subject to prior approval of both the Company's Appointed Actuary and the head of the particular division. In these instances, reinsurance may also be used to effectively manage the risk.

Additionally, adherence to the Product Design and Pricing Policy is subject to internal peer review and senior management in each division is required to report compliance with this Policy annually to the Company's Appointed Actuary.

Underwriting Risk

Underwriting risk is the risk of loss resulting from the selection and approval of risks to be insured and the management of contractual and non-contractual product options.

The Company's philosophy with respect to underwriting is to prudently manage the risks with due consideration given to the Company's expertise, its ability to absorb losses, and expected returns. For existing products, where the Company has considerable expertise in both underwriting and claims, it will generally manage the risk internally. Where existing products have significant loss exposure, some form of excess loss reinsurance will generally be put in place. For newer product areas in which the Company has little experience in underwriting and claims, additional reinsurance may be obtained and the advice of industry experts will generally be sought. It is the Company's policy in underwriting cases to avoid excessive exposure with respect to any specific risk profile. In general, concentration risk is avoided by operating internationally and by underwriting a wide range of cases and products within each jurisdiction.

In addition to establishing appropriate underwriting criteria to determine the insurability of applicants, insurance risk is managed by limiting the Company's exposure to life and health claims. The claims risk for the Company is limited to its retention limit of \$5 million for any individual life claim and various limits for health claims, not exceeding this limit, depending on the type of coverage. To ensure these limits continue to be appropriate, management and the Board periodically review the policies relating to the maximum risks the Company will assume. Claims in excess of these retention limits are reinsured to outside reinsurers. The Company has also maintained catastrophic reinsurance coverage with outside reinsurers in the event of a loss of three or more lives in the same catastrophe.

Policy Liabilities and Claims Risk

Policy liabilities and claims risk is the risk of loss resulting from unfavourable mortality, morbidity, surrender or lapse experience or unfavourable expense and interest rates as they relate to the actuarial liabilities recorded by the Company. This risk also includes the risk of loss resulting from the inappropriate adjudication of claims.

The projection of liability cash flows involves the use of best estimates for setting assumptions related to mortality, morbidity, administrative expenses, policyholder dividends, lapses and surrenders. Actual experience may vary from these estimates, thereby subjecting the Company to potential losses. To manage this risk, the Company has established a valuation policy in accordance with CIA guidelines. Senior actuaries in each division are required to report on compliance with the valuation policy annually to the Company's Chief Actuary. Additionally, actual experience is monitored against these assumptions to ensure they remain reasonable. *(The Company's actuarial policies are described in more detail in Note 3 to the Consolidated Financial Statements.)*

Business Risk

Operational Risk

Operational risk is the risk of direct or indirect loss that arises from problems in the performance of business functions or processes and can result from deficiencies or breakdowns in internal controls or processes, technology failures, human errors or dishonesty and natural disasters.

Standards and procedures have been established to ensure that appropriate and effective internal controls are developed and implemented to manage operational risks and that reliable and comprehensive systems are in place to monitor properly the effectiveness of those controls on a regular basis. The management team actively manages the business operations and has implemented organizational and procedural controls supported by information systems to manage the exposure to operational risk. In addition, the Company has procedures in place in all of its jurisdictions to ensure its continuing operations and to minimize any disruption in service in the event of a natural or other disaster. These procedures are reviewed and tested on a regular basis.

An independent internal audit function, reporting to the Audit and Risk Management Committee of the Board, monitors the effectiveness of these organizational and procedural controls, including compliance with OSFI's Standards of Sound Business and Financial Practices and the Quebec Guideline for Sound Risk Governance.

Legal and Regulatory Risk

Legal and regulatory risk arises as a result of non-conformance with laws, rules, regulations, legislation, prescribed practices, or ethical standards in any jurisdiction in which a company operates, as well as the risk of loss resulting from an existing or proposed business arrangement.

The Company is subject to extensive regulatory requirements and oversight in all jurisdictions in which it operates. In addition, in the normal course of business, the Company may be exposed to liabilities arising from various litigation.

The Company has established practices and procedures to manage legal and regulatory risk effectively in each jurisdiction in which it operates. In order to achieve this, the legal and compliance departments in each operating division interpret local laws, rules and regulations, as well as global policies and procedures, to protect the Company and its shareholders from legal or regulatory liabilities. Corporate Legal and Compliance departments are in place at head office to support the local legal and compliance departments. These Corporate departments provide the Board with regular objective assessments of the risks facing the Company from a legal and regulatory perspective.

Strategic Risk

Strategic risk arises from the inability to plan and implement adequately appropriate business strategies, decision-making and resource allocations, as well as an inability to adapt to changes in the business environment, including ensuring products and customer service are competitive and meet customer needs.

In each of its operations, the Company increasingly competes with large, diversified and well-capitalized financial services companies such as other life insurance companies, banks, investment dealers and mutual fund companies. Competition may be based on the types of products sold or services provided, price, quality of service or the relative financial strength of the Company.

The Company has a rigorous and dynamic financial and business planning process in place. Planning is completed at all business levels. Business plans are presented annually to the Board and include financial and other goals along with measurement against targets. The Company also regularly conducts market analysis to ensure it remains competitive within the current business environment. Through the Company's commitment to customer service excellence, service standards are developed and are monitored by management to ensure customer satisfaction.

Accounting Policies

Changes in Accounting Policies

Goodwill and Other Intangible Assets

Effective January 1, 2002, the Company adopted prospectively the new recommendations for Goodwill and Other Intangible Assets issued by the Canadian Institute of Chartered Accountants (CICA). Under these new requirements, goodwill is no longer amortized to shareholders' net income. Instead, goodwill is subject to a periodic impairment review to test whether the fair value remains greater than or equal to book value. Any excess of book value over fair value is charged to general expenses in the period in which the impairment has been determined. The Company completed impairment testing for 2002 and determined that goodwill is not impaired. The adoption of this standard eliminated approximately \$25 million of goodwill amortization in 2002.

Stock-based Compensation and Other Stock-based Payments

Effective January 1, 2002, the Company adopted the CICA's new recommendations for Stock-based Compensation and Other Stock-based Payments, which allow for the use of either the fair value or intrinsic value methods to account for certain stock-based compensation agreements. The Company has adopted these recommendations retroactively without restatement of prior periods, as the restatements are not material to the Consolidated Financial Statements. In 2002, the Company used the intrinsic value method of accounting for such awards, under which no compensation expense is recognized for stock options where the exercise price is equivalent to the closing market price of the Company's shares on the Toronto Stock Exchange the day prior to the option grant date. The new recommendations also require that Stock Appreciation Rights (SARs) that can be settled in cash be recorded as liabilities for the excess of the market value of the shares over the exercise price.

The Company has elected to adopt the fair value method of accounting for stock options prospectively from January 1, 2003. The amount of additional compensation expense will depend on the number of options granted and their fair value at the date of grant.

Summary of Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in Canada (GAAP) requires management to adopt accounting policies and to make estimates and assumptions that affect amounts reported in the Consolidated Financial Statements. The critical accounting policies and related judgements underlying the Company's Consolidated Financial Statements are summarized below. In applying these policies, management makes subjective and complex judgements that frequently require estimates about matters that are inherently uncertain. Many of these policies are common in the insurance and other financial services industries; others are specific to the Company's businesses and operations. *(The Company's general policies are described in detail in note 2 of the Consolidated Financial Statements.)*

Actuarial Liabilities

Actuarial liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commissions and policy administrative expenses for all insurance and annuity policies in force with the Company. The Company's Appointed Actuary is responsible for determining the amount of the actuarial liabilities such that sufficient funds will be available in the future to meet the Company's obligations. The valuation methods used by the Appointed Actuary are determined using generally accepted actuarial practices, according to standards established by the CIA. The valuation methodology used is the Canadian Asset Liability Method. This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgement. *(Additional details regarding these judgements and estimations can be found in note 3 of the Consolidated Financial Statements.)*

Income Taxes

The Company has substantial future income tax assets. The recognition of future tax assets depends on management's assumption that future earnings will be sufficient to realize the deferred benefit. The amount of the asset recorded is based on management's best estimate of the timing of reversal of the asset.

Employee Future Benefits

Accounting for pension and other post-retirement benefits requires estimates of future returns on plan assets, expected increases in compensation levels, trends in health care costs, as well as the appropriate discount rate for accrued benefit obligations. *(These estimates are discussed in note 18 of the Consolidated Financial Statements.)*

The Consolidated Financial Statements of Canada Life Financial Corporation ("the Company"), as well as all the information in the annual report, are the responsibility of management. The Consolidated Financial Statements for the Company have been reviewed by the Audit and Risk Management Committee and approved by the Board of Directors.

The Consolidated Financial Statements for the Company have been prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Office of the Superintendent of Financial Institutions, Canada (OSFI). The Consolidated Financial Statements contain some items that reflect management's best estimates and judgements. Where alternative accounting methods exist, management has chosen those deemed most appropriate in the circumstances to ensure the Consolidated Financial Statements are presented fairly, in all material respects. Moreover, management has ensured that all financial information in this annual report is consistent with that in the Consolidated Financial Statements.

The Company maintains a system of internal accounting and administrative controls in accordance with OSFI's Standards of Sound Business and Financial Practices and the Quebec Guideline for Sound Risk Governance. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and forms a proper basis for the preparation of the Consolidated Financial Statements. The Company's internal audit department assesses the systems of internal control on an ongoing basis.

The Board of Directors of the Company is responsible for ensuring that management fulfills its responsibilities for financial reporting and is responsible for reviewing the Consolidated Financial Statements of the Company. The Board carries out this responsibility principally through its Audit and Risk Management Committee of independent Directors. The Audit and Risk Management Committee meets periodically with management and the internal and external auditors to discuss auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the Consolidated Financial Statements and the reports of the external auditors and the Appointed Actuary.

The Appointed Actuary is appointed by the Board of Directors and is required to provide an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations. The Appointed Actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form the opinion. The Appointed Actuary makes use of the internal and external auditors' work in respect of the accuracy of the policy data used in the valuation. The Appointed Actuary is required each year to analyze the financial condition of the Company and to prepare a report for the Board of Directors. For 2002, this analysis tested the capital adequacy of the Company until December 31, 2006 under adverse economic and business conditions.

Ernst & Young LLP have been appointed the external auditors for the Company. It is the external auditors' responsibility to report to the shareholders of the Company on the fairness of presentation of the Company's Consolidated Financial Statements. The external auditors make use of the Appointed Actuary's work in their audit of the Company. The Auditors' Report for the Company outlines the scope of their audit and their opinion. The external auditors have full and unrestricted access to the Audit and Risk Management Committee of the Company.

February 4, 2003



D. A. Nield

Chairman of the Board and
Chief Executive Officer



P. G. Crowley

Executive Vice-President
and Chief Financial Officer

To the Policyholders, Shareholders and Directors of Canada Life Financial Corporation:

I have valued the policy liabilities of Canada Life Financial Corporation for its Consolidated Balance Sheets as at December 31, 2002 and their change in its Consolidated Statements of Net Income and the Consolidated Statements of Equity for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the Consolidated Financial Statements fairly present the results of the valuation.

**D. A. Loney**

Fellow, Canadian Institute of Actuaries
Toronto, Canada
February 4, 2003

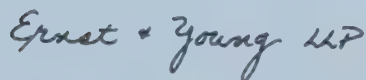
Auditors' Report**To the Shareholders of Canada Life Financial Corporation:**

We have audited the Consolidated Balance Sheets of Canada Life Financial Corporation and the Consolidated Statements of Net Assets of its Segregated Funds as at December 31, 2002 and 2001 and the Consolidated Statements of Net Income, Equity, Cash Flows, and Changes in Segregated Funds for each of the years in the three-year period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company and of the Segregated Funds as at December 31, 2002 and 2001 and the results of its operations and its cash flows and changes in Segregated Funds for each of the years in the three-year period ended December 31, 2002 in accordance with Canadian generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada.

As disclosed in note 2(a) to the Consolidated Financial Statements, new Canadian generally accepted accounting principles required the Company to change its method of accounting for goodwill and other intangible assets, and stock-based compensation and other stock-based payments. As well, as disclosed in note 23(e)(viii) to the Consolidated Financial Statements, new United States generally accepted accounting principles required the Company to change its method of accounting for goodwill and other intangible assets.

**Chartered Accountants**

Toronto, Canada
February 4, 2003

Consolidated Statements of Net Income

For the years ended December 31 (in millions of Canadian dollars, except per share amounts)

	2002	2001	2000
REVENUES			
Premiums			
Annuities	\$ 2,474	\$ 2,272	\$ 1,746
Individual life and health insurance	1,510	1,428	1,384
Group life and health insurance	1,931	1,658	1,546
	5,915	5,358	4,676
Net investment income (note 7(c))	2,154	2,241	2,306
Fee and other income (note 2(o))	529	465	479
	8,598	8,064	7,461
EXPENDITURES			
Payments to policyholders and beneficiaries			
Annuity payments	1,352	1,246	1,128
Life, health and general benefits	2,193	1,987	1,670
Maturities, surrender payments and other	1,512	1,680	1,837
Participating policyholder dividends	295	305	289
	5,352	5,218	4,924
Increase in actuarial liabilities (notes 3 and 9(a))	1,129	972	707
General operating expenses	814	794	743
Commissions	539	461	409
Premium and other taxes	66	64	68
Interest expense (note 11)	38	39	39
Non-controlling interest in subsidiary	25	—	—
Goodwill amortization (notes 2(a)(i) and 2(m))	—	25	24
	7,963	7,573	6,914
Net income before income tax provision	635	491	547
Income tax provision (note 13)	133	153	195
Net income including participating policyholders' net income (loss)	502	338	352
Participating policyholders' net income (loss)	3	(4)	(4)
Shareholders' net income	\$ 499	\$ 342	\$ 356
Preferred share dividends	9	—	—
Common shareholders' net income	\$ 490	\$ 342	\$ 356
Average number of common shares outstanding (millions)			
Basic	160.4	160.4	160.4
Diluted	160.4	160.6	160.4
Earnings per common share (note 15)			
Basic and diluted	\$ 3.05	\$ 2.13	\$ 2.22

(see accompanying notes)

Consolidated Balance Sheets

As at December 31. (in millions of Canadian dollars)

2002

2001

ASSETS

Invested assets (note 7(a))		
Bonds	\$ 22,317	\$ 19,046
Mortgages	7,622	7,996
Common and preferred stocks	2,073	2,475
Real estate	1,066	941
Policy loans	1,113	1,070
Cash, cash equivalents and short-term investments (note 2(p))	1,159	1,142
Other	1,124	775
Total invested assets	36,474	33,445
Other assets (note 8)	1,717	1,506
Total general fund assets	\$ 38,191	\$ 34,951
Segregated funds net assets	\$ 21,899	\$ 22,090

LIABILITIES AND EQUITY

Policy liabilities		
Actuarial liabilities (notes 3 and 9)	\$ 29,050	\$ 27,169
Other policy liabilities	1,059	1,017
Policyholders' amounts left on deposit	453	426
Total policy liabilities	30,562	28,612
Net deferred gains (note 7(d))	1,472	1,491
Other liabilities (note 10)	1,190	875
	33,224	30,978
Subordinated debentures (note 11)	550	550
Non-controlling interest in subsidiary (note 12)	450	—
Total equity	3,967	3,423
Total general fund liabilities and equity	\$ 38,191	\$ 34,951
Segregated funds net liabilities	\$ 21,899	\$ 22,090

Commitments and contingencies (note 21)

(see accompanying notes)

On behalf of the Board:


D. A. NieldChairman of the Board and
Chief Executive Officer

T. Iain RonaldChairman of the Audit and
Risk Management Committee

Consolidated Statements of Equity

For the years ended December 31 (in millions of Canadian dollars)

	2002	2001	2000
PARTICIPATING POLICYHOLDERS' EQUITY			
Balance, beginning of year	\$ 41	\$ 45	\$ 49
Participating policyholders' net income (loss)	3	(4)	(4)
Balance, end of year	44	41	45
Currency translation			
Balance, beginning of year	(1)	(1)	(2)
Net unrealized gain on translation of net investments in foreign operations	5	—	1
Balance, end of year	4	(1)	(1)
Total participating policyholders' equity	\$ 48	\$ 40	\$ 44
SHAREHOLDERS' EQUITY			
Share capital			
Preferred shares (note 14)			
Balance, beginning of year	\$ 145	\$ —	\$ —
Issue of preferred shares	—	145	—
Balance, end of year	\$ 145	\$ 145	\$ —
Common shares (note 14)			
Balance, beginning and end of year	\$ 317	\$ 317	\$ 317
Retained earnings			
Balance, beginning of year	\$ 2,910	\$ 2,652	\$ 2,373
Shareholders' net income	499	342	356
Dividends paid to preferred shareholders	(9)	—	—
Dividends paid to common shareholders	(96)	(84)	(77)
Canada Life Capital Securities ("CLiCS") issuance costs	(5)	—	—
Balance, end of year	3,299	2,910	2,652
Currency translation account			
Balance, beginning of year	11	(77)	(52)
Net unrealized gain (loss) on translation of net investments in foreign operations	147	88	(25)
Balance, end of year	158	11	(77)
Total retained earnings	\$ 3,457	\$ 2,921	\$ 2,575
Total shareholders' equity	\$ 3,919	\$ 3,383	\$ 2,892
Total equity	\$ 3,967	\$ 3,423	\$ 2,936

(see accompanying notes)

Consolidated Statements of Cash Flows

For the years ended December 31 (in millions of Canadian dollars)

	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income including participating policyholders' net income (loss)	\$ 502	\$ 338	\$ 352
Items not affecting cash and cash equivalents:			
Increase in actuarial liabilities and other policy liabilities	453	1,167	708
Amortization of net deferred gains and amortization of net discounts on bonds and mortgages	(206)	(282)	(336)
Other, including future income taxes	2	68	64
Net change in other operating assets and liabilities	269	(130)	(9)
Increase due to operating activities	1,020	1,161	779
CASH FLOWS FROM INVESTING ACTIVITIES			
Sales, maturities and scheduled redemptions of:			
Bonds	14,196	21,570	9,836
Mortgages	2,380	2,672	3,460
Common and preferred stocks	1,278	869	1,223
Real estate	49	66	394
Other investments	409	119	174
Purchases of:			
Bonds	(16,365)	(22,248)	(10,384)
Mortgages	(1,947)	(2,852)	(3,781)
Common and preferred stocks	(861)	(1,278)	(1,116)
Real estate	(89)	(111)	(156)
Other investments	(708)	(294)	(105)
Net short-term investments	57	227	(251)
Net policy loans	(43)	(45)	(27)
Acquisitions, net of cash paid (note 4)	302	—	176
Decrease due to investing activities	(1,342)	(1,305)	(557)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of preferred shares (note 14)	—	145	—
Issue of CLiCS (note 12)	445	—	—
Dividends paid to common shareholders	(96)	(84)	(77)
Dividends paid to preferred shareholders	(9)	—	—
Increase (decrease) due to financing activities	340	61	(77)
Effect of changes in exchange rates on cash and cash equivalents	56	25	(8)
Net increase (decrease) in cash and cash equivalents for the year	74	(58)	137
Cash and cash equivalents, beginning of year	993	1,051	914
Cash and cash equivalents, end of year	1,067	993	1,051
Short-term investments, end of year	92	149	373
Cash, cash equivalents and short-term investments, end of year	\$ 1,159	\$ 1,142	\$ 1,424
Supplementary disclosure of cash flow information:			
Interest paid on subordinated debentures, other liabilities and Canada Life Capital Securities	\$ 63	\$ 39	\$ 39
Income taxes paid, net of refunds	\$ 13	\$ 172	\$ 97

(see accompanying notes)

Consolidated Statements of Changes in Segregated Funds

For the years ended December 31 (in millions of Canadian dollars)

	2002	2001	2000
ADDITIONS TO SEGREGATED FUNDS			
Deposits and transfers from the general fund	\$ 3,721	\$ 3,828	\$ 3,692
Reclassifications from the general fund and transfer of seed money	664	—	—
Net investment income	532	438	636
Currency translation adjustment	1,375	359	(301)
Tax recovery	10	60	32
	6,302	4,685	4,059
DEDUCTIONS FROM SEGREGATED FUNDS			
Withdrawals, benefit payments and transfers to the general fund	2,362	2,033	2,690
Operating expenses	393	353	379
Net decrease in fair value of investments	3,738	2,592	482
	6,493	4,978	3,551
Net additions (deductions) to segregated funds for the year	(191)	(293)	508
Segregated funds net assets, beginning of year	22,090	22,383	21,875
Segregated funds net assets, end of year	\$ 21,899	\$ 22,090	\$ 22,383

(see accompanying notes)

Consolidated Statements of Segregated Funds Net Assets

As at December 31 (in millions of Canadian dollars)

	2002	2001
Common and preferred stocks	\$ 16,214	\$ 17,769
Bonds	2,455	2,219
Cash, cash equivalents and short-term investments	2,291	1,536
Real estate	944	788
Mortgages	9	8
Investment income due and accrued	242	20
Tax liability	(49)	(61)
Due to brokers and others	(207)	(189)
	\$ 21,899	\$ 22,090

(see accompanying notes)

1. NATURE OF OPERATIONS AND BUSINESS ACTIVITIES

Canada Life Financial Corporation ("the Company"), incorporated on June 21, 1999, was formed for the purpose of becoming a publicly traded holding company of The Canada Life Assurance Company ("CLA"), which demutualized on November 4, 1999. Both companies are registered under the Insurance Companies Act (ICA), Canada, which is administered by the Office of the Superintendent of Financial Institutions (OSFI), Canada. The Company offers insurance and other protection and wealth management

products and services to individuals and groups, including reinsurance services, primarily in Canada, the United Kingdom, the United States and the Republic of Ireland, and in several other jurisdictions.

The 2001 and 2000 comparative figures have been reclassified to conform to presentation changes adopted in 2002.

2. SIGNIFICANT ACCOUNTING POLICIES

The Company prepares its Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles (GAAP) for life insurance enterprises, including the accounting requirements of OSFI. There are no differences between GAAP and OSFI accounting requirements. See note 23 for a description and reconciliation of differences between GAAP in Canada and the United States.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities as at the date of the Consolidated Financial Statements and income and expenses during the reporting period. Actual results could differ from these estimates. The most significant estimates are related to the determination of actuarial liabilities which are discussed in note 3.

The significant accounting policies followed in the preparation of these Consolidated Financial Statements are summarized as follows:

(a) Accounting policy changes

(i) Goodwill and other intangible assets

Effective January 1, 2002, the Company adopted prospectively the new recommendations for Goodwill and Other Intangible Assets issued by the Canadian Institute of Chartered Accountants (CICA). Under the new recommendations, all goodwill and intangible assets with indefinite lives ceased to be amortized to shareholders' net income. Goodwill and intangible assets with indefinite lives are subject to an annual impairment review to test whether the fair value remains greater than, or equal to, book value. Any excess of book value over fair value is charged to general operating expenses on the Consolidated Statements of Net Income in the period in which the impairment has been determined. The Company has completed its required transitional impairment testing on the goodwill balance as at December 31, 2001 and determined that goodwill is not impaired. In addition, the Company has completed the required annual impairment test for 2002 and determined that goodwill is not impaired.

(ii) Stock-based compensation and other stock-based payments

Effective January 1, 2002, the Company adopted the CICA's new recommendation for Stock-Based Compensation and Other Stock-Based Payments, which allows for the use of either the fair value or intrinsic value methods to account for certain stock-based compensation agreements. The Company has adopted this recommendation retroactively without restatement of prior periods as the restatements were not material to the Consolidated Financial Statements. The Company uses the intrinsic value method of accounting for such awards, under which no compensation expense is recognized for stock options where the exercise price is equivalent to the closing market price of the Company's shares on the Toronto Stock Exchange (TSX) the day prior to the option grant date. The new recommendation also requires that stock appreciation rights ("SARs") that can be settled in cash be recorded as liabilities for the excess of the market value of the shares over the exercise price. Refer to Note 2(s) for future changes to this accounting policy.

(b) Other changes

(i) Valuation of invested assets held for the general fund

In the third quarter of 2002, the Company changed the application of the rate used for the moving average market method for stocks and real estate portfolios in accordance with the requirements of OSFI. The fair value adjustment of the difference between the carrying value and period-end fair value and the amortization of net realized gains and losses have been changed to 5% per quarter from 15% per annum for stocks and 3% per quarter from 10% per annum for real estate. The Company adopted this change in estimate in the third quarter on a prospective basis. The impact of this change on these Consolidated Financial Statements was not material.

(c) Basis of consolidation

These financial statements consolidate the operating results and financial position of the Company and its subsidiaries. All intercompany balances have been eliminated.

(d) Participating account

The ICA requires the Company to maintain two accounts within its general fund: one for its participating policies ("the participating account") and one for all of its other business ("the shareholders' account"). Through its participating account, the assets, liabilities, income and equity relating to the Company's participating policies are recorded separately.

The participating account is comprised of two main subdivisions. The liabilities for participating policies issued or assumed by the Company prior to demutualization are held in closed block sub-accounts. These liabilities for guaranteed and other non-guaranteed benefits are determined using best estimate assumptions. If at any time the value of the assets allocated to these policies were, in the opinion of the Appointed Actuary, less than the assets required in the long term to support the liabilities of these policies and the future reasonable net income expectations of the policyholders, assets having a sufficient value to rectify the situation would be transferred first from the additional ancillary sub-accounts maintained in the participating account for this purpose and then, if the deficiency is expected to be permanent, from the shareholders' account. Any such transfers from the shareholders' account would be recorded as a charge to shareholders' net income.

The second main subdivision comprises the open block sub-accounts containing all liabilities in respect of new participating policies issued on or after demutualization. On demutualization, \$50 million of seed capital was transferred from retained earnings of the shareholders' account to the participating account. Subject to approval by OSFI, the seed capital amount, together with a reasonable rate of return, may be transferred to the shareholders' account if the seed capital is no longer required to support the new participating policies. Transfers of seed capital to the shareholders' account would be returns of capital and would be recorded as adjustments to shareholders' retained earnings. A reasonable rate of return on seed capital is recognized as income in the shareholders'

account and an expense in the participating account. In addition, a percentage of the net income of the new participating policies may be transferred to the shareholders' account as permitted by regulation.

(e) Valuation of invested assets held for the general fund

(i) Bonds and mortgages

Bonds, including asset-backed fixed term securities, and mortgages are carried at amortized cost, net of allowances for specific losses (refer to note 2(e)(v)).

The difference between the proceeds on the sale of a bond or mortgage prior to maturity and its carrying value is considered to be an adjustment of future portfolio yield. This difference is deferred on the Consolidated Balance Sheets and amortized to net income over the remaining term to maturity.

(ii) Stocks and real estate

Portfolio investments in stocks and real estate, which include Company-occupied premises, are carried at a value that is adjusted toward fair value each year. Prior to the adoption on July 1, 2002 of the new OSFI requirement, the adjustment for stocks was 15% per annum of the difference between carrying value and year-end fair value. The fair value adjustment for real estate was 10% per annum of the difference between carrying value and appraised value. Appraised value is determined annually based on a combination of internal appraisals established by the Company and independent appraisals. All real estate properties are independently appraised at least once every three years.

Net realized gains and losses on the disposal of stocks and real estate are deferred on the Consolidated Balance Sheets and were amortized to net income on a declining balance basis at 15% per annum for stocks and at 10% per annum for real estate.

Refer to note 2(b)(i) for a description of the change to this policy that was adopted prospectively in the third quarter of 2002.

(iii) Policy loans

Policy loans are carried at their unpaid balance and are fully secured by the cash surrender value of the policies on which the respective loans are made.

(iv) Other invested assets

Other invested assets generally include the Company's investment in equipment leases, limited partnerships and equity investments in which the Company has the ability to exercise significant influence. Equipment leases are carried at cost less accumulated amortization. Equity investments and limited partnerships are carried at cost plus the Company's pro rata share of the investees' net income (loss), less any distributions paid to the Company during the year.

(v) Impaired investments and provisions for losses

Impaired investments include all loans with payments of 90 days or more in arrears unless their repayment has been insured by a government authority or representative thereof. Impaired investments also include loans that are not in arrears but where management has determined that an impairment in value exists.

The carrying value of the Company's investment in a bond or mortgage is reduced by a specific provision for loss to the extent an impairment in value is deemed to exist. A specific provision for loss is established whenever there is a decline in the value of a bond, which is other than temporary, or when the recovery of the principal and accrued interest on a mortgage is in doubt and the value of the underlying security is also impaired. A specific provision for loss is only reduced as a result of a write-off or sale of the impaired investment, or if the conditions that caused the impairment no longer exist. Accrual of interest is discontinued and previously accrued interest is reversed on impaired bonds and impaired mortgages where payments are 90 days or more in arrears.

Property that is acquired due to a mortgage foreclosure and held for resale is classified as real estate and is valued at the lower of the amortized cost of the mortgage at the time of foreclosure and the net realizable value of the property. Any losses on foreclosure and subsequent adjustments to net realizable value are recognized in net income immediately.

The carrying value of the stock portfolio or the real estate portfolio is written down to fair value immediately if there is an other than temporary decline in the value of either portfolio. The Company treats the stock and real estate portfolios as separate portfolios for the purpose of assessing whether permanent impairment exists.

In addition to specific provisions noted above for existing asset impairments, the Company provides for potential future asset defaults through the reduction of the assumed investment yields used in the calculation of the actuarial liabilities as disclosed in note 3 and as required by the Canadian Institute of Actuaries (CIA) and OSFI.

(f) Fair value

(i) Bonds and mortgages

The fair value of publicly traded bonds and asset-backed fixed term securities is determined using quoted market prices. The fair value of bonds and mortgages that are not publicly traded is determined by discounting the expected future cash flows related to these loans at market interest rates.

(ii) Common and preferred stocks

The fair value of common and preferred stocks is determined using quoted market prices. The fair value of common and preferred stocks that are not publicly traded is determined by discounting expected future cash flows at risk-adjusted rates of return.

(iii) Real estate

The fair value of real estate is determined based on the appraised value as described in note 2(e)(ii).

(iv) Other invested assets and policy loans

The fair value of other invested assets and policy loans is generally estimated to equal carrying value.

(v) Subordinated debentures

The fair value of the Company's subordinated debentures is determined based on the value in the market for equivalently rated securities of similar terms.

(g) Segregated funds

The Company manages certain funds that are segregated from the general fund of the Company. This business includes Canadian segregated annuity funds; unit-linked life insurance and annuity business in the United Kingdom and the Republic of Ireland; and variable annuity separate account business in the United States. The net assets of these funds are carried at fair value, and a corresponding amount is reported as a liability. Fair value is determined using quoted market values or, where quoted market values are not available, estimated fair values as determined by the Company. Income earned from fund management fees is included in fee and other income in the general fund. Certain individual contracts have guarantees from the Company. In these cases, a separate actuarial liability is established in the general fund to provide for any unexpected losses resulting from the guarantee.

(h) Foreign currency translation

Foreign currency assets and liabilities are translated into Canadian dollars using the rates of exchange in effect at the balance sheet dates. Revenues and expenditures are translated into Canadian dollars at average rates of exchange during the year.

The Company's currency translation account (CTA) arises from the translation of its self-sustaining foreign operations. Unrealized foreign currency gains and losses arising on the translation of the accounts of the Company's foreign operations and on forward foreign exchange agreements that are used to hedge the exposure of the Company's investments in foreign operations are recorded as a direct adjustment to the CTA. The CTA is presented as a separate component of equity on the Consolidated Statements of Equity.

(i) Income taxes

The Company uses the liability method of tax allocation. Future income tax assets and liabilities reflect the net tax effects of temporary differences between the value of assets and liabilities reported for financial statement purposes and those reported for income tax purposes. Future income tax assets and liabilities are calculated based on income tax rates and laws that are expected to apply when the asset or liability is realized, which are those that are enacted or substantively enacted at the Consolidated Balance Sheet dates. Future income tax assets are recognized only to the extent that it is more likely than not that the income tax benefit will be realized.

(j) Employee future benefit liabilities

The Company maintains defined benefit pension plans and provides other post-retirement benefits such as post-retirement life, health and dental insurance benefits for its employees and agents. The assets supporting the trustee pension plans of the Company are held in separate trustee pension funds. The remaining benefits are included in other liabilities and are supported by general fund assets of the Company. The accrued benefit is determined using a market rate of interest.

The actuarial valuations of the pension obligations are determined using the projected benefit method prorated on service, based on management's best estimate assumptions. Pension and other post-retirement benefit costs for the year are based on the estimated benefits earned by the employees and agents during the year. Pension plan surplus or deficit, changes in assumptions and plan amendments, as well as experience gains and losses, are amortized to income over the expected average remaining service life of plan members.

(k) Derivative financial instruments

The Company utilizes derivative financial instruments, including swaps, forward contracts, futures and options, when appropriate, to manage its asset/liability positions and to hedge against fluctuations in interest rates, foreign exchange rates and stock market indices. Realized and unrealized gains and losses resulting from the use of these derivative financial instruments are included in income on a basis consistent with the underlying positions being hedged.

(l) Reinsurance

The Company's premium income, payments to policyholders and beneficiaries, actuarial liabilities and increase in actuarial liabilities are all shown net of amounts ceded to, or including amounts assumed from, other insurers.

(m) Goodwill and other intangible assets

Goodwill represents the excess of cost over the estimated fair value of the net assets acquired as at the date of acquisition. Prior to 2002, goodwill

resulting from acquisitions before July 1, 2001 was generally amortized to income on a straight-line basis over 10 years. Refer to note 2(a)(i) for a description of changes to this policy that were effective January 1, 2002.

(n) Gross premiums

Gross premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue.

(o) Fee and other income

Fee and other income primarily includes fees earned from the management of the Company's segregated funds assets, third party assets and fees earned from investment management services provided by subsidiary companies.

(p) Cash, cash equivalents and short-term investments

Cash equivalents consist of investments with original maturities at acquisition of three months or less. Short-term investments consist of investments with original maturities at acquisition exceeding three months, but less than twelve months.

(q) Software costs

For those costs that meet specific criteria, the Company capitalizes and amortizes software acquisition and development costs over a period not exceeding five years.

(r) Repurchase agreements

The Company enters into repurchase agreements that involve sales of securities under agreements to repurchase the securities at a later date at an agreed-upon price. These agreements are treated as collateralized borrowing transactions and are included in other liabilities at the amounts at which the securities were sold. Interest incurred on repurchase agreements is included in net investment income.

(s) Future changes in accounting policy

(i) Stock-based compensation and other stock-based payments

For fiscal 2003, the Company has elected to adopt the fair value method of accounting for stock options as encouraged in the CICA's recommendations for Stock-Based Compensation and Other Stock-Based Payments. The Company will recognize prospectively the compensation expense for stock option awards granted after January 1, 2003. The amount of the additional compensation expense depends on the number of options granted and their fair value at the date of grant. Refer to note 17 for pro forma disclosure on options granted in fiscal 2002.

(ii) Hedging

During the year, the CICA issued a new accounting guideline on hedging relationships that will be effective for the Company beginning January 1, 2004. The guideline establishes the criteria that must be met in order to apply hedge accounting for derivatives. Changes in the fair value of derivatives that do not qualify for hedge accounting will be recorded in the Consolidated Statements of Net Income. The impact of implementing this guideline on the Company's future results will depend on the Company's hedging strategies and market volatility.

3. SIGNIFICANT ACTUARIAL POLICIES

Actuarial liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commissions and policy administrative expenses for all insurance and annuity policies in force with the Company. The Company's Appointed Actuary is responsible for determining the amount of the actuarial liabilities such that sufficient funds will be available in the future to meet the Company's obligations. The valuation methods used by the Appointed Actuary are determined using generally accepted actuarial practices, according to standards established by the CIA. The valuation methods used by the Company were changed in 2001 to adopt retroactively the Standards of Practice for the Valuation of Policy Liabilities of Life Insurers (Life SOP) as required by the CIA. In addition, the determination of the actuarial liabilities includes the discounting effect of future income taxes relating directly to items included in the computation of these liabilities.

The valuation methodology under Life SOP is the Canadian Asset Liability Method (CALM). This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations. The method consists of four basic steps:

1. Determination of the period over which these projections are performed.
2. Projection of liability cash flows.
3. Projection of asset cash flows.
4. Performance of economic scenario testing under a variety of plausible economic conditions.

The Company maintains specific asset funds to back each major line of business. The projection of liability and asset cash flows recognizes these specific asset funds.

(a) Selecting the projection period

The projection period is chosen so as to include all insured events in the valuation process. The projection period is long enough to encompass all material policy-related obligations arising from commitments the insurer has made on, or before, the valuation date. For example, the projection period for a traditional non-participating individual life policy is the maturity date of the contract.

For certain segregated funds products without significant insurable events, Life SOP requires a method for determining general fund actuarial liabilities which involves a projection of future policy expense margins and a comparison of these amounts to expenses associated with the acquisition of these policies that have not yet been recovered. To the extent these future margins will allow for the future recovery of these unrecovered expenses, the unrecovered expenses are a reduction to actuarial liabilities otherwise computed.

For certain group life and health insurance products, Life SOP allows for the amortization and recovery of acquisition expenses from policy expense margins that are expected to be received in the future. To the extent these future margins will allow for the future recovery of these unrecovered expenses, the unrecovered expenses are a reduction to actuarial liabilities otherwise computed.

(b) Projecting liability cash flows

Projecting liability cash flows involves the use of best estimates for the following assumptions: mortality, morbidity, administrative expenses, policyholder dividends, and policy lapses and surrenders. Actual experience is monitored against these assumptions to ensure they remain reasonable.

The process of projecting liability cash flows involves the estimation of the occurrence of events (e.g., a policyholder's death or surrender) that may or may not happen until many years in the future. Due to the uncertainties involved in this process, best estimate assumptions are adjusted by margins for adverse deviations, which provide for possible unfavourable deviations from expected experience. These margins increase actuarial liabilities and reduce the net income that otherwise would be recognized at the inception of a policy.

The range for these margins is set out in guidelines issued by the CIA. Given the diversity and size of the Company's portfolio, the risk of deviations being significantly different than expected is relatively low, so that margins at the low end of the permissible range are often justifiable. However, the Company often follows a more prudent practice of establishing margins close to the middle of the range.

(c) Key assumptions for projecting liability cash flows

The following is a description of the methods used to calculate the best estimates for the significant non-economic assumptions used in the projection of liability cash flows.

(i) Mortality

Mortality relates to the incidence of death. For life insurance, the Company conducts annual mortality studies for each country and line of business. The Company's assumptions are derived by expressing its own average experience over the last five years as a percentage of the most recent industry experience tables.

For major payout annuity blocks of business, the Company conducts annual mortality studies and the rates used are based on the average experience over the last five years. In the case of smaller blocks of annuity business where the experience is too small to be reliable, intercompany pension experience tables are used. Suitable projection factors reflecting industry experience are used in all cases to allow for the improving mortality trends.

(ii) Morbidity

Morbidity generally refers to the incidence of sickness and accident claims, and to the rate of recovery of such claimants.

For people who are not currently disabled, the morbidity assumptions for individual policies are based on recent internal studies translated into various factors applied to standard industry morbidity tables. For group policies, the premium can be changed each year due to changing claims experience and, therefore, the liability is set equal to a portion of the premiums paid in advance.

For people who are disabled, the termination assumptions are based on recent internal studies and translated into factors applied to standard industry tables.

(iii) Administrative expenses

Actuarial liabilities include amounts to provide for the costs of administering policies in force such as the cost of collecting premiums, processing and adjudicating claims, periodic communications with policyholders, related indirect expenses and a share of overhead costs. Allowances for expenses are based on the Company's most recent internal cost analysis, with adjustments to the current valuation year. The internal cost analysis is reviewed and updated annually. These expenses are projected into the future with allowances for inflation.

(iv) Policyholder dividends

Policy liabilities include the present value of the estimated future payments of participating policyholder dividends, including terminal bonus dividends for policies issued in the United Kingdom and the Republic of Ireland. Dividends paid to participating policyholders are calculated in accordance with the dividend policy established by the Board of Directors ("the Board").

(v) Policy lapses and surrenders

Although a policy contract may call for the payment of premiums over the full term of the policy, policyholders may choose not to continue to pay premiums, thereby allowing their policy to lapse. Policyholders may also choose to surrender their policy in return for the policy's cash surrender value. Policy termination rate assumptions are based on the Company's recent experience by country and line of business. For certain products, the actuarial liability decreases as policy termination rates increase. On such products, very low policy termination rates are assumed in establishing the liabilities.

(d) Projecting asset cash flows

Asset cash flow projections reflect future scheduled events (e.g., coupon payments and maturities on bonds) as well as the use of best estimates for the following assumptions: investment expenses, asset defaults and pre-payments. These best estimate assumptions are adjusted by margins for adverse deviations, which provide for possible unfavourable deviations from expected experience. Assumptions are also made about reinvestment/disinvestment strategies for net cash flows.

(e) Economic scenario testing

A variety of economic scenarios are tested for most products. Scenarios include increases or decreases in interest rates, as well as changing patterns of these rates. The level of actuarial liabilities is determined by considering the amount of assets that must be set aside currently to provide for all future obligations under the more adverse economic scenarios tested.

4. ACQUISITIONS AND DISPOSITIONS

On October 1, 2002, the Company completed an agreement to acquire a substantial block of group life and long term disability insurance business in the United Kingdom, reinsuring these risks on that date. Formal transfer of the business will occur after court approval, expected in mid-2003. Results are included in the Consolidated Statements of Income since the date of acquisition. The acquisition had a purchase price of approximately \$53 million, including transaction costs, net of tax, of \$3 million.

The purchase price allocation is as follows:

Net liabilities acquired:

Cash	\$	410
Bonds		292
Other assets		120
		822
Policy liabilities		866
Other liabilities		80
		946
	\$	(124)

Consideration paid:

Cash consideration	\$	50
Transaction costs, net of taxes		3
	\$	53
Goodwill on acquisition	\$	177

On October 31, 2002, the Company completed a transaction to acquire a Canadian provider of preferred term life insurance products in Canada. The acquisition had a purchase price of \$58 million, including transaction costs of \$1 million. The Company acquired \$26 million of assets including \$3 million of cash, \$24 million of negative actuarial liabilities and \$7 million of other liabilities and recorded goodwill on the acquisition of \$15 million.

In 2000, the Company sold its 100% interest in its general insurance subsidiary, Canada Life Casualty Insurance Company. Included in the December 31, 2000 Consolidated Statement of Net Income was revenue of \$132 million and net income of \$10 million relating to the general insurance subsidiary, and included in fee and other income, a gain of \$18 million, net of tax from the disposition of this subsidiary.

5. INTEREST RATE, FOREIGN CURRENCY, CREDIT AND LIQUIDITY RISK

(a) Interest rate risk

Interest rate risk is the risk that the economic value of the Company is adversely impacted by changes in interest rates. The interest rate risk associated with the Company's annuity and pension products is of particular importance because these products constitute approximately 59% (58% in 2001) of the Company's general fund actuarial liabilities. The timing and amount of the Company's obligations under annuity and pension products can be determined with reasonable certainty and the mismatch positions of the assets supporting these liabilities is monitored quarterly to measure compliance with the limits set out in the Company's Investment Policy.

The following table shows the estimated amount of the future asset and liability cash flows associated with the Company's annuity and pension products that were in force at December 31 and reflects the appropriate repricing or maturity date. The cash flow gap between the assets and the liabilities is also noted. These cash flows include the effect of any off-balance sheet derivative financial instruments the Company has entered into for asset/liability management purposes.

For the years ended December 31:

(in millions of Canadian dollars)	Repricing or maturity date				
	Less than 1 year	1 to 5 years	5 to 10 years	10 to 20 years	Over 20 years
2002					
Assets	\$ 2,459	\$ 8,877	\$ 5,762	\$ 8,567	\$ 6,244
Liabilities	2,395	8,813	5,893	7,931	6,832
Cash flow gap	\$ 64	\$ 64	\$ (131)	\$ 636	\$ (588)
2001					
Assets	\$ 2,740	\$ 8,423	\$ 5,669	\$ 7,679	\$ 5,655
Liabilities	2,827	8,331	5,470	7,065	6,445
Cash flow gap	\$ (87)	\$ 92	\$ 199	\$ 614	\$ (790)

Two related methods are used by the Company to measure and to monitor the interest rate risk associated with the Company's annuity and pension products.

(i) **Duration mismatch**

The following table indicates, in years, the duration mismatch that is associated with the Company's annuity and pension products as at December 31:

(in years)	2002	2001
Asset duration	7.73	7.01
Liability duration	7.67	6.99
Duration mismatch	0.06	0.02

(ii) **Net present value**

The impact on the net present value (NPV) of the Company's annuity and pension products of a 1% parallel change in interest rates, as at December 31, is shown in the following table:

(in millions of Canadian dollars)	2002	2001
NPV	\$ 321	\$ 366
Impact on NPV if interest rate changed +1%	(50)	(53)
Impact on NPV if interest rate changed -1%	34	44

The margins for adverse deviations set aside in the actuarial liabilities, as described in note 3, take into account adverse interest rate movements that are significantly more adverse than the parallel 1% change shown above.

(b) **Foreign currency risk**

Foreign currency risk is the risk of loss due to adverse movements in foreign currency rates as compared to the Canadian dollar. A 1% strengthening of the Canadian dollar relative to the currencies in the foreign jurisdictions in which the Company operates would reduce shareholders' retained earnings by \$33 million (\$24 million in 2001) and net income by \$3 million (\$3 million in both 2001 and 2000) after taking into account the effect of any off-balance sheet derivative financial instruments that the Company has entered into for purposes of hedging against adverse changes in foreign exchange rates.

(c) **Credit risk**

Credit risk is the risk of financial loss due to the failure of a debtor to honour its obligations to the Company. Potential areas of significant concentration of credit risk include non-investment grade bonds and non-insured mortgages, which in 2002 amounted to carrying values of

\$864 million and \$6,654 million, respectively (in 2001, \$818 million and \$7,121 million, respectively) and represented 21% of the total invested asset portfolio (24% in 2001). The carrying values of impaired non-investment grade bonds and non-insured mortgages in 2002 were \$65 million and \$6 million, respectively (in 2001, \$138 million and \$15 million, respectively) and represented 0.19% of the invested asset portfolio in 2002 (0.46% in 2001).

Credit risk associated with an individual counterparty is indicated by the Company's largest exposure to any one corporate entity's fixed term investments, including term preferred shares. The Company's largest exposure to any one corporate entity in 2002 was \$191 million (\$192 million in 2001).

The Company's exposure to credit risk relating to its off-balance sheet investments in derivative financial instruments is disclosed in note 20.

(d) **Liquidity risk**

Liquidity risk refers to the ability of the Company to meet its obligations to policyholders and creditors as they fall due.

The sources of liquidity are as follows:

(in millions of Canadian dollars)	2002	2001
Cash, cash equivalents and short-term investments	\$ 1,159	\$ 1,142
Senior government securities	6,938	5,283
Other government securities and corporate bonds	8,591	7,353
Insured mortgages	968	875
Total	\$ 17,656	\$ 14,653

At December 31, 2002, the Company had \$431 million (\$472 million in 2001) available from the unused portion of revolving lines of credit.

Liquidity must be maintained, in particular, to provide for life insurance policies, which permit policyholders to surrender their policies for a guaranteed surrender value at any time. Some annuity policies may also be surrendered prior to the end of the stated maturity dates for a value determined by the terms of the policy. The aggregate amount of outstanding cash surrender values if all policies had been surrendered as at December 31, 2002 was \$12,593 million (\$12,977 million in 2001). Actual cash surrenders during the year amounted to \$1,446 million (\$1,500 million in 2001). Policyholder dividends left on deposit with the Company can be withdrawn on demand at any time, and as at December 31, 2002 totalled \$306 million (\$301 million in 2001). Policyholder dividends withdrawn during the year totalled \$34 million (\$31 million in 2001).

6. REINSURANCE

(a) Reinsurance

The Company has a variety of reinsurance business arrangements in place whereby the Company accepts reinsurance from other insurers and reinsurers and, as well, uses reinsurance to manage underwriting and liability risk in the normal course of business. Reinsurance arrangements

do not relieve the Company of its liability as the primary insurer. Therefore, the Company may be exposed to credit risk relating to its reinsurers and retrocessionaires.

The following summarizes the gross and net impacts of reinsurance on certain financial statement line items:

<i>(in millions of Canadian dollars)</i>	2002	2001	2000
Premiums			
Direct written	\$ 6,618	\$ 5,976	\$ 5,007
Reinsurance assumed	569	436	387
Reinsurance ceded	(1,272)	(1,054)	(718)
Net premiums	\$ 5,915	\$ 5,358	\$ 4,676
Payments to policyholders and beneficiaries and increase in actuarial liabilities			
Gross expense	\$ 7,151	\$ 7,262	\$ 6,040
Reinsurance ceded	(670)	(1,072)	(409)
Net expense	\$ 6,481	\$ 6,190	\$ 5,631
Policy liabilities			
Gross policy liabilities	\$ 31,993	\$ 29,835	\$ 27,177
Reinsurance ceded	(1,431)	(1,223)	(491)
Net policy liabilities	\$ 30,562	\$ 28,612	\$ 26,686

(b) Impact of September 11, 2001

As part of its reinsurance business, the Company has special risk reinsurance (including workers' compensation and catastrophe coverage) contracts with other insurers and reinsurers on which it has incurred losses as a result of the terrorist attack of September 11, 2001. During 2002, the Company paid claims and updated its estimate as appropriate

for experience, reducing the overall net provision to \$122 million pre-tax as at December 31, 2002 (\$131 million pre-tax in 2001). The Company believes its current estimates of gross and net losses incurred are sufficient, but they may be subject to adjustment as additional information is received.

The total provision is comprised as follows:

Impact of September 11, 2001

<i>(in millions of Canadian dollars)</i>	Gross exposure	Reinsurance recoveries	Exposure net of recoveries	Catastrophe coverage	Net exposure	Additional provision	Total provision
Total provision, beginning of year ¹	\$ 606	\$ (415)	\$ 191	\$ (100)	\$ 91	\$ 40	\$ 131
Paid claims	(44)	34	(10)	—	(10)	—	(10)
Change in estimate	(69)	43	(26)	—	(26)	27	1
Paid expenses	—	—	—	—	—	(6)	(6)
Effect of changes in currency translation rates	11	(6)	5	—	5	1	6
Total provision, end of year¹	\$ 504	\$ (344)	\$ 160	\$ (100)	\$ 60	\$ 62	\$ 122

¹ All amounts included in the table in note 6(a).

The reinsurance recoveries at December 31, 2002 relate to over 20 reinsurance relationships. Of the reinsurance recoverable amount at December 31, 2002, according to A.M. Best, 34% (58% in 2001) is with companies rated A+ or better, 56% (34% in 2001) is with companies rated A and 10% (8% in 2001) is with companies rated A-.

The Company has entered into, and may in the future enter into, negotiations, arbitration proceedings or litigation with certain of its retrocessionaires in the process of collecting all amounts owed by such parties. Based on the information that the Company has to date, the Company believes that it will succeed in enforcing its rights in respect of each of its reinsurance arrangements.

7. GENERAL FUND INVESTMENTS AND NET INVESTMENT INCOME

(a) Invested assets

(in millions of Canadian dollars)	Carrying value of unimpaired investments	Carrying value of impaired investments	Total carrying value of investments	Unrealized gains	Unrealized losses	Fair value of investments
2002						
Bonds						
Government – Canada	\$ 2,972	\$ —	\$ 2,972	\$ 249	\$ (2)	\$ 3,219
Government – foreign	5,296	—	5,296	337	(1)	5,632
Corporate and other	13,966	83	14,049	1,244	(162)	15,131
Mortgages						
Residential	2,890	—	2,890	347	(36)	3,201
Non-residential	4,726	6	4,732	514	(30)	5,216
Common and preferred stocks	2,072	1	2,073	124	(316)	1,881
Real estate (including foreclosed properties)	1,063	3	1,066	145	(15)	1,196
Other invested assets	3,380	16	3,396	—	—	3,396
Total	\$ 36,365	\$ 109	\$ 36,474	\$ 2,960	\$ (562)	\$ 38,872
2001						
Bonds						
Government – Canada	\$ 2,873	\$ —	\$ 2,873	\$ 143	\$ (21)	\$ 2,995
Government – foreign	3,501	—	3,501	175	(27)	3,649
Corporate and other	12,534	138	12,672	732	(182)	13,222
Mortgages						
Residential	2,907	—	2,907	212	(7)	3,112
Non-residential	5,074	15	5,089	328	(15)	5,402
Common and preferred stocks	2,475	—	2,475	275	(179)	2,571
Real estate (including foreclosed properties)	938	3	941	124	(42)	1,023
Other invested assets	2,968	19	2,987	15	—	3,002
Total	\$ 33,270	\$ 175	\$ 33,445	\$ 2,004	\$ (473)	\$ 34,976

Invested assets of the Company with a carrying value of \$31,555 million (\$29,671 million in 2001) and a fair value totalling \$34,019 million (\$31,174 million in 2001), as well as the cash flows derived therefrom, support the actuarial and other liabilities of the operating funds, participating policyholders' equity and the non-operating fund liabilities disclosed in note 9(c). Changes in the fair value of these assets generally will not cause a corresponding change in equity, as they would be offset by changes in actuarial liabilities. For the methods and assumptions used to estimate fair values, refer to note 2(f).

Invested assets with a carrying value of \$4,919 million (\$3,774 million in 2001) and a fair value totalling \$4,853 million (\$3,802 million in 2001) support the shareholders' equity, subordinated debentures and other liabilities of the Company. Changes in the fair value of these assets would result in unrealized gains or losses, which would ultimately cause a corresponding change in shareholders' equity. In addition, the Company has recorded net deferred realized gains relating to the sale of assets supporting shareholders' equity of \$257 million (\$332 million in 2001). These net deferred realized gains and the unrealized gains or losses will be amortized to net income in the future in accordance with the accounting policies described in note 2(e).

The carrying value and fair value of bonds, by contractual maturity, are as follows:

(in millions of Canadian dollars)	2002		2001	
	Carrying value	Fair value	Carrying value	Fair value
Due in 1 year or less	\$ 1,522	\$ 1,531	\$ 663	\$ 665
Due after 1 year through 5 years	5,024	5,260	4,146	4,279
Due after 5 years through 10 years	3,175	3,362	3,502	3,603
Due after 10 years	12,596	13,829	10,735	11,319
Total	\$ 22,317	\$ 23,982	\$ 19,046	\$ 19,866

(b) Provisions for losses

The carrying values of impaired investments have been reduced by the following provisions for losses:

<i>(in millions of Canadian dollars)</i>	2002	2001	2000
Bonds	\$ 53	\$ 48	\$ 20
Mortgages	2	17	25
Common and preferred stocks	—	—	3
Real estate (including foreclosed properties)	1	1	2
Other invested assets	3	5	2
Total	\$ 59	\$ 71	\$ 52

The change in the provisions for losses for the year is as follows:

Provisions for losses, beginning of year	\$ 71	\$ 52	\$ 70
Net increase (decrease) in provisions for losses on impaired investments <i>(note 7(c))</i>	(12)	17	(17)
	59	69	53
Effect of changes in currency translation rates	—	2	(1)
Provisions for losses, end of year	\$ 59	\$ 71	\$ 52

In addition to the above specific provisions, actuarial liabilities as at December 31, 2002 include \$569 million (\$514 million in 2001) to provide for potential future asset defaults.

(c) Net investment income

<i>(in millions of Canadian dollars)</i>	2002	2001	2000
Interest	\$ 2,079	\$ 2,063	\$ 1,978
Dividends	40	59	49
Net rents	76	61	62
Amortized net gains from:			
Bonds	100	102	63
Mortgages	12	11	10
Common and preferred stocks	27	78	153
Real estate	22	20	20
Sundry	(112)	(70)	22
Losses on impaired investments:			
Net (increase) decrease in provisions for losses on impaired investments <i>(note 7(b))</i>	12	(17)	17
Write-offs and net realized losses on sale of impaired investments	(43)	(13)	(22)
Total: investment income	2,213	2,294	2,352
Less: investment expenses	59	53	46
Total	\$ 2,154	\$ 2,241	\$ 2,306

(d) Net deferred gains

Net deferred gains are calculated in accordance with note 2(e) and include deferred realized gains and losses on the sale of investments. The balances are as follows:

<i>(in millions of Canadian dollars)</i>	2002	2001
Bonds	\$ 1,044	\$ 951
Mortgages	73	56
Common and preferred stocks	258	388
Real estate	97	96
Total	\$ 1,472	\$ 1,491

8. OTHER ASSETS

Other assets consist of the following:

(in millions of Canadian dollars)

	2002	2001
Future income taxes (note 13)	\$ 303	\$ 394
Investment income due and accrued	435	369
Accounts receivable	271	285
Capital assets	206	140
Goodwill	331	137
Premiums receivable	157	123
Prepaid expenses and other assets	14	58
Total	\$ 1,717	\$ 1,506

9. ACTUARIAL LIABILITIES

(a) Changes in actuarial liabilities

	2002			2001		
(in millions of Canadian dollars)	Participating	Non-participating	Total	Participating	Non-participating	Total
Balance, beginning of year	\$ 5,680	\$ 21,489	\$ 27,169	\$ 5,215	\$ 20,266	\$ 25,481
Set aside on new and existing business	375	779	1,154	341	658	999
Reclassification from non-participating to participating	38	(38)	—	—	—	—
Net change resulting from revised assumptions and refinements used in calculating certain liabilities ¹	(9)	(16)	(25)	(6)	(21)	(27)
	404	725	1,129	335	637	972
Acquisitions	—	842	842	—	—	—
Reclassification from the general fund to the segregated funds	—	(642)	(642)	—	—	—
Effect of changes in currency translation rates	170	382	552	130	586	716
Balance, end of year	\$ 6,254	\$ 22,796	\$ 29,050	\$ 5,680	\$ 21,489	\$ 27,169

¹ Included in actuarial liability releases for 2002 were releases for maintenance expenses of \$34 million, releases for individual insurance mortality of \$48 million, a net strengthening of \$55 million in the U.K. for annuitant mortality and guaranteed annuity options, and miscellaneous other changes netting to a strengthening of \$2 million.

Included in actuarial liability releases for 2001 were reductions of \$14 million in U.S. individual insurance on account of mortality and expenses and \$11 million in U.K. and Irish unit-linked insurance on account of mortality. Additionally, there was a further net release of \$2 million in respect of a variety of other items.

(b) Distribution of actuarial liabilities

The actuarial liabilities, by line of business and geographic territory, consist of the following:

(in millions of Canadian dollars)	Participating	Non-participating			Total
	Insurance and annuities	Annuities	Individual life and health insurance	Group life and health insurance	
2002					
Canada	\$ 2,733	\$ 6,607	\$ 988	\$ 1,173	\$ 11,501
United Kingdom	1,256	4,580	311	1,309	7,456
United States	1,433	5,290	1,829	435	8,987
Republic of Ireland	454	156	(97)	16	529
International and Reinsurance	378	29	103	67	577
Total	\$ 6,254	\$ 16,662	\$ 3,134	\$ 3,000	\$ 29,050
2001					
Canada	\$ 2,521	\$ 6,570	\$ 1,048	\$ 1,137	\$ 11,276
United Kingdom	1,196	3,630	289	347	5,462
United States	1,268	5,214	1,919	387	8,788
Republic of Ireland	343	318	413	15	1,089
International and Reinsurance	352	39	104	59	554
Total	\$ 5,680	\$ 15,771	\$ 3,773	\$ 1,945	\$ 27,169

Actuarial liabilities have been reduced by reinsurance ceded as follows:

(in millions of Canadian dollars)	2002	2001
Canada	\$ 551	\$ 327
United Kingdom	134	113
United States	46	47
Republic of Ireland	18	19
International and Reinsurance	117	97
Total	\$ 866	\$ 603

(c) Carrying value of assets supporting each product line

The carrying value of total assets backing actuarial liabilities, other liabilities and equity is as follows:

(in millions of Canadian dollars)	Operating funds					Equity, subordinated debentures, non-operating fund and other liabilities ¹	2002	Total 2001
	Participating	Non-participating						
		Annuities	Life and health insurance					
			Insurance and annuities	Individual	Group			
Canada								
Bonds	\$ 1,938	\$ 4,201	\$ 924	\$ 876	\$ 208	\$ 8,147	\$ 7,621	
Mortgages	569	2,294	250	402	75	3,590	3,886	
Common and preferred stocks	217	24	2	—	275	518	543	
Real estate (including foreclosed properties)	51	—	—	—	236	287	282	
Other invested assets	373	419	(29)	138	76	977	1,194	
All other assets	41	95	38	115	311	600	505	
	\$ 3,189	\$ 7,033	\$ 1,185	\$ 1,531	\$ 1,181	\$ 14,119	\$ 14,031	
United Kingdom								
Bonds	\$ 848	\$ 3,567	\$ 114	\$ 585	\$ 1,332	\$ 6,446	\$ 4,508	
Mortgages	1	521	6	—	—	528	509	
Common and preferred stocks	419	171	5	5	347	947	763	
Real estate (including foreclosed properties)	143	472	1	—	66	682	573	
Other invested assets	150	5	280	324	381	1,140	581	
All other assets	82	136	13	36	335	602	487	
	\$ 1,643	\$ 4,872	\$ 419	\$ 950	\$ 2,461	\$ 10,345	\$ 7,421	
United States								
Bonds	\$ 822	\$ 3,115	\$ 985	\$ 296	\$ 921	\$ 6,139	\$ 5,768	
Mortgages	406	2,145	487	191	15	3,244	3,352	
Common and preferred stocks	56	1	1	—	353	411	457	
Real estate (including foreclosed properties)	—	2	—	—	38	40	40	
Other invested assets	238	13	379	37	111	778	872	
All other assets	61	129	48	32	108	378	453	
	\$ 1,583	\$ 5,405	\$ 1,900	\$ 556	\$ 1,546	\$ 10,990	\$ 10,942	
Republic of Ireland								
Bonds	\$ 386	\$ 223	\$ 293	\$ 17	\$ 18	\$ 937	\$ 739	
Common and preferred stocks	112	5	35	—	—	152	710	
Real estate (including foreclosed properties)	39	9	—	—	5	53	41	
Other invested assets	18	—	—	—	208	226	159	
All other assets	13	5	—	5	10	33	(40)	
	\$ 568	\$ 242	\$ 328	\$ 22	\$ 241	\$ 1,401	\$ 1,609	
International and Reinsurance								
Bonds	\$ 182	\$ 10	\$ 84	\$ 143	\$ 229	\$ 648	\$ 410	
Mortgages	138	8	67	47	—	260	249	
Common and preferred stocks	—	20	—	—	25	45	2	
Real estate (including foreclosed properties)	—	—	4	—	—	4	5	
Other invested assets	108	2	35	130	—	275	181	
All other assets	5	5	7	—	87	104	101	
	\$ 433	\$ 45	\$ 197	\$ 320	\$ 341	\$ 1,336	\$ 948	
Total	\$ 7,416	\$ 17,597	\$ 4,029	\$ 3,379	\$ 5,770	\$ 38,191	\$ 34,951	

¹ Non-operating fund liabilities include employee and agent retirement benefit liabilities and other miscellaneous liabilities of the Company. Other liabilities include non-controlling interest in the Canada Life Capital Securities.

10. OTHER LIABILITIES

Other liabilities are comprised of the following items:

(In millions of Canadian dollars)	2002	2001
Accounts payable	\$ 770	\$ 548
Current income taxes	92	69
Future income taxes (note 13)	53	—
Security repurchase transactions	53	—
Premium and other taxes payable	19	18
Other	203	240
Total	\$ 1,190	\$ 875

11. SUBORDINATED DEBENTURES

(In millions of Canadian dollars)	Maturity	2002	2001
Subordinated debentures bearing interest at a fixed rate of 8% until 2006 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance Rate plus 1%	2011	\$ 250	\$ 250
Series 1 subordinated debentures bearing interest at a fixed rate of 5.8% until 2008 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance Rate plus 1%	2013	200	200
Series 2 subordinated debentures bearing interest at a fixed rate of 6.4%	2028	100	100
Total		\$ 550	\$ 550

At December 31, 2002, the fair value of the subordinated debentures was \$599 million (\$580 million in 2001).

Subordinated debentures were issued by CLA. All of the above debentures constitute direct, unsecured and subordinated obligations of CLA and are redeemable at the option of CLA with the prior approval of OSFI. The subordinated debentures qualify as Tier 2B capital for Canadian regulatory purposes.

Interest expense relating to the subordinated debentures was \$38 million (\$38 million in both 2001 and 2000) and is included as part of interest expense in the Consolidated Statements of Net Income, along with other interest of nil (\$1 million in both 2001 and 2000).

12. NON-CONTROLLING INTEREST IN SUBSIDIARY

On March 14, 2002, Canada Life Capital Trust ("CLCT"), a trust established under the laws of Ontario by The Canada Trust Company and administered by CLA, issued \$450 million of non-voting Canada Life Capital Securities ("CLiCS"). CLCT issued \$300 million of non-voting CLiCS – Series A and \$150 million of non-voting CLiCS – Series B which qualify as Tier 1 capital for Canadian regulatory purposes. Holders of the CLiCS – Series A and CLiCS – Series B will be entitled to receive semi-annual, non-cumulative fixed cash distributions of \$33.395 and \$37.645 per \$1,000 of CLiCS, respectively, representing respective annual yields of 6.679% and 7.529% of the one thousand dollars initial issue price, payable out of CLCT's net distributable funds. Subject to regulatory approval, CLCT may redeem any series of CLiCS, in whole or in part, at any time on or after June 30, 2007, and in certain limited circumstances, may also redeem all but not less than all of the CLiCS prior to June 30, 2007. The holders of the CLiCS will have the right at any time to surrender each one thousand dollars face amount of CLiCS and to receive from CLCT in exchange, in the case of CLiCS – Series A, 40 newly issued CLA Class A Shares Series 2, or in the case of CLiCS – Series B, 40 newly issued CLA Class A Shares Series 4, subject to compliance with the declaration of trust governing CLCT.

Pursuant to the share exchange agreement, the Company and CLA agreed that if CLCT fails to pay on any regular distribution date the required cash distributions on the CLiCS in full, CLA would not pay dividends on any of its public preferred shares that may be outstanding. If there are no public preferred shares of CLA outstanding, the Company will not pay dividends on any of its preferred and common shares. As at December 31, 2002, CLA did not have any public preferred shares outstanding. In each case, the ability to restart distributions on the CLiCS and dividend payments to the public depends on the resumption of dividend payments on the CLA Class A Shares Series 1.

In addition, as long as any CLiCS are outstanding, and provided that CLA does not have outstanding public preferred shares, the Company will not declare or pay dividends on outstanding preferred and common shares unless CLA has declared and paid a dividend on the CLA Class A Shares Series 1.

The non-controlling interest in subsidiary on the Consolidated Balance Sheets consists of \$450 million in CLiCS issued by CLCT.

13. INCOME TAXES

(a) Income tax provision

(in millions of Canadian dollars)

	2002	2001	2000
Current income tax provision	\$ (33)	\$ 55	\$ 107
Future income taxes relating to temporary differences	166	81	57
Future income taxes resulting from changes in tax rates	—	17	31
Total	\$ 133	\$ 153	\$ 195

(b) Reconciliation of income tax provision

(in millions of Canadian dollars)

	2002	2001	2000
Net income before income tax provision	\$ 635	\$ 491	\$ 547
Expected provision for income taxes at the combined Canadian federal and provincial statutory rate of 39.00% (42.25% in 2001 and 44.25% in 2000)	247	207	242
Adjusted for:			
Federal and provincial statutory rate changes	—	17	31
Tax-exempt investment income	(15)	(18)	(21)
Foreign operations taxed at different rates and bases	(73)	(51)	(45)
Large corporations and other capital taxes	4	3	3
Recognition of tax losses of prior years	(15)	(1)	(9)
Other	(15)	(4)	(6)
Income tax provision	\$ 133	\$ 153	\$ 195

(c) Future income taxes

The net future tax assets of \$250 million arise from temporary differences on the following items:

	2002			2001		
(in millions of Canadian dollars)	Future tax assets	Future tax liabilities	Net	Future tax assets	Future tax liabilities	Net
Investments	\$ 81	\$ 6	\$ 75	\$ 151	\$ 1	\$ 150
Actuarial liabilities	170	171	(1)	184	100	84
Employee future benefits	—	26	(26)	—	16	(16)
Deferred acquisition costs	133	—	133	128	—	128
Other	104	35	69	50	2	48
Total	\$ 488	\$ 238	\$ 250	\$ 513	\$ 119	\$ 394

Net future income taxes of \$250 million (\$394 million in 2001) are reflected in the Consolidated Balance Sheets as future income tax assets of \$303 million (\$394 million in 2001) and future income tax liabilities of \$53 million (nil in 2001).

A portion of the undistributed net income of non-Canadian subsidiaries will be taxed in Canada upon repatriation. The Company will recognize the future tax liability on the undistributed net income at the time when management determines that they will be repatriated in the foreseeable future.

As at December 31, 2002, the Company has tax loss carryforwards, primarily in Canada, totalling \$675 million (\$329 million in 2001). The future tax benefit of these tax loss carryforwards has been recognized, to the extent that they are more likely than not to be realized, in the amount of \$187 million (\$120 million in 2001) in future tax assets. The Company will realize this benefit in future years through a reduction in current income taxes payable. In addition, an accumulated tax loss carryforward of \$139 million (\$178 million in 2001) has not been recognized as a future tax asset.

14. SHARE CAPITAL

(a) Authorized:

(i) Preferred shares

There is an unlimited number of authorized non-voting preferred shares without nominal or par value, issuable in series. The Company's by-laws authorize the Board, prior to the issue of any series of preferred shares, to fix the number of shares in, and to designate the rights, privileges, restrictions and conditions of each series, subject to the provisions of the Company's by-laws and the ICA.

(ii) Common shares

There is an unlimited number of authorized voting common shares without nominal or par value.

(b) Issued and outstanding:

(in millions)	2002		2001	
	Number of shares	Share value	Number of shares	Share value
Preferred shares				
Balance, beginning of year	6.0	\$ 145	—	\$ —
Series B shares issued ¹	—	—	4.0	95
Series B shares issued to underwriters	—	—	2.0	50
Balance, end of year	6.0	\$ 145	6.0	\$ 145
Common shares				
Balance, beginning and end of year	160.4	\$ 317	160.4	\$ 317

¹ On December 28, 2001, the Company issued 6 million non-cumulative redeemable Series B preferred shares at \$25.00 per share for net proceeds of \$145 million after deducting total issue expenses and underwriting fees of \$5 million.

The Series B non-cumulative preferred shares are entitled to non-cumulative preferential cash dividends of \$1.5625 per share, payable quarterly. The redemption price if the shares are redeemed prior to December 31, 2007 is \$26.00 per Series B share. Beginning on December 31, 2007, the redemption price declines \$0.25 annually until after 2010 at which time the redemption price is \$25.00 per share.

15. EARNINGS PER COMMON SHARE

(in millions, except per share amounts)	2002	2001	2000
Basic earnings per common share			
Common shareholders' net income	\$ 490	\$ 342	\$ 356
Goodwill expense	—	25	24
Common shareholders' net income excluding goodwill expense	\$ 490	\$ 367	\$ 380
Weighted daily average number of common shares outstanding	160.4	160.4	160.4
Basic earnings per common share	\$ 3.05	\$ 2.13	\$ 2.22
Basic earnings per common share excluding goodwill expense	\$ 3.05	\$ 2.29	\$ 2.37
Diluted earnings per common share			
Common shareholders' net income	\$ 490	\$ 342	\$ 356
Goodwill expense	—	25	24
Common shareholders' net income excluding goodwill expense	\$ 490	\$ 367	\$ 380
Weighted daily average number of common shares outstanding	160.4	160.4	160.4
Dilutive effect of stock options granted and outstanding	—	0.2	—
Weighted daily average diluted number of common shares outstanding	160.4	160.6	160.4
Diluted earnings per common share	\$ 3.05	\$ 2.13	\$ 2.22
Diluted earnings per common share excluding goodwill expense	\$ 3.05	\$ 2.29	\$ 2.37

16. MINIMUM CAPITAL REQUIREMENTS AND SHAREHOLDER DIVIDEND RESTRICTIONS

The Company is regulated by OSFI as a Canadian insurance company. OSFI requires Canadian insurance companies to maintain minimum levels of capital and surplus with respect to their worldwide insurance operations in order to provide additional assurance with respect to future solvency. These minimum levels are calculated in accordance with the Minimum Continuing Capital and Surplus Requirements (MCCSR) issued by OSFI. The Company's policy is to maintain an MCCSR ratio well in excess of the minimum required level. At the end of 2002, the ratio was 202% (191% in 2001). This ratio represents an excess of available capital of \$1,214 million (\$857 million in 2001) over OSFI's minimum capital requirements.

The Company's ability to meet its cash requirements and pay dividends on the common and preferred shares will depend on the receipt of dividends and other payments from CLA. CLA's insurance subsidiaries and branches are required to maintain minimum solvency and capital standards in the jurisdictions in which they operate. These regulatory standards may effectively restrict the amount of dividends, distributions or other payments that may be made by such subsidiaries and branches to CLA and to the Company.

In 2002, the Company distributed \$105 million (\$84 million in 2001) of cash dividends to shareholders.

17. STOCK-BASED COMPENSATION

(a) Stock option plan

Under the Company's stock option plan, stock options are periodically granted to selected employees and non-employee Directors at an exercise price not less than the closing price of the common shares on the TSX on the last trading day prior to the date the option was granted. The number of options granted, the exercise price, the expiry date and the vesting period are determined by the Board. Options granted to Directors vest on the date of grant. Options granted to employees vest 25% each year over a four-year period, commencing on the one year anniversary of the grant date, and expire 10 years after the date of grant.

At the discretion of the Board, options awarded in 2000 and 2001 were granted with SARs in tandem. The SARs have the same vesting, expiry and exercise terms and conditions as the options to which they are attached. The SARs give the option-holder the choice to either exercise the option or forfeit the option and receive a cash payment equal to the difference between the market value of the shares on the date of exercise and the exercise price.

The following table summarizes activity under the Company's stock option plan:

	2002		2001	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, beginning of year	2,046,410	\$ 39.86	962,046	\$ 36.95
Granted ¹	1,167,916	41.88	1,161,079	42.25
Exercised	(9,679)	36.95	—	—
Forfeited ²	(138,618)	40.44	(76,715)	39.46
Outstanding, end of year	3,066,029	\$ 40.62	2,046,410	\$ 39.86
Exercisable, end of year	787,317	\$ 38.59	308,330	\$ 37.78
Available for grant	4,924,292		5,953,590	

¹ In 2002 no options were granted with SARs attached (1,139,593 options were granted with SARs attached in 2001).

² 2002 includes 343 options forfeited due to the exercise of SARs during the year (4,209 in 2001).

The stock options outstanding and exercisable as at December 31, 2002, by exercise price, were as follows:

Range of exercise prices	Options outstanding			Options exercisable	
	Number of stock options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of stock options	Weighted average exercise price
\$30.52 to \$36.95	979,140	8.10	\$ 36.20	492,357	\$ 36.36
\$42.20 to \$44.62	2,086,889	8.62	\$ 42.69	294,960	\$ 42.30
	3,066,029		\$ 40.62	787,317	\$ 38.59

Under the fair value method of accounting for stock options, the fair value is estimated at the grant date and the total fair value of the stock options is amortized over the vesting periods as compensation expense. The weighted average fair value of stock options at the grant date for the year ended December 31, 2002 was estimated to be \$13.52 per stock option using the Black-Scholes options pricing model. The pricing model assumes the following weighted average information: risk-free interest rate of 5%, an expected life of seven years, an expected common share volatility of 24.4% and an expected dividend yield of 1.3%. Had the Company used the fair value method to measure option-based compensation, the common shareholders' net income, earnings per common share and diluted earnings per common share for the year ended December 31, 2002 would have been reduced by \$4 million, \$0.02 and \$0.02, respectively.

The Company recognizes compensation expense for those stock options that have been awarded SARs in tandem based on the excess of the market value over the exercise price. The Company expects the SARs to be settled in cash and therefore accrues compensation expense on SARs over the vesting period equal to the excess of quoted market price at the

balance sheet date over the exercise price. Compensation expense related to this plan is included in general expenses on the Consolidated Statements of Net Income and was not material for the years ended December 31, 2002 and 2001.

(b) Directors share purchase plan

In 2001 the Company introduced a Directors share purchase plan ("DSPP"). Under this plan, each Director may choose to receive all or a percentage of his/her annual fees in the form of Company shares. This election to participate must be made on an annual basis and terminates once the plan member ceases to be a Director. The shares are purchased on the TSX quarterly by a plan administrator based on the amounts allocated by each Director. The plan allows the Directors to sell all or a portion of the accumulated shares and withdraw funds from their account at any time, subject to applicable securities laws and the Company's Insider Trading Policy. Compensation expense for DSPPs is recorded under general expenses in the Consolidated Statements of Net Income. Compensation expense related to this plan was not material for the years ended December 31, 2002 and 2001.

(c) Deferred stock unit plan

In 2001 the Company introduced a deferred stock unit ("DSU") plan. The plan is offered to senior executive officers and non-employee Directors of the Company. Under this plan, each member may choose to receive all or a percentage of his/her annual incentive bonus or Director's fee in the form of deferred stock units. This election to participate must be made on an annual basis prior to receiving the compensation. The initial and redemption values of each unit are based on the closing price of the Company's common shares on the TSX on the date of converting cash amounts to or from units, as applicable. DSUs attract dividends in the form of additional DSUs at the same rate as dividends on the common shares. Units are redeemable only when a plan member ceases to be a Company employee or Director. Compensation expense for the DSUs is recorded under general expenses in the Consolidated Statements of Net Income. Compensation expense related to this plan was not material for the years ended December 31, 2002 and 2001.

(d) Employee share purchase plan

In 2001 the Company introduced an employee share purchase plan ("ESPP") with Company matching in Canada and in the United Kingdom. In Canada, qualifying employees can choose to contribute up to 10% of their annual base salary to purchase the Company's common shares. Shares are purchased on the TSX by a plan administrator. The Company matches up to 50% of the employee contribution amount to a maximum of the lesser of \$1,500 per year or 2.5% of eligible annual earnings. The U.K. plan is the same as the plan in Canada except that the Company matches 10% of the employee contribution amount to a maximum of £150. In each case, the Company's contributions vest after the first year of continuous participation in the plan, and all subsequent contributions vest immediately. Matching contributions made by the Company on the purchase of shares are expensed over the vesting period. Compensation expense related to this plan was not material for the years ended December 31, 2002 and 2001.

18. EMPLOYEE FUTURE BENEFITS

The Company provides pension and other post-retirement life, health and dental insurance benefits, as well as post-employment benefits, for its eligible employees and agents.

Information about the Company's defined benefit pension and other arrangements, in aggregate, is as follows:

	Pension benefits		Other benefits	
	2002	2001	2002	2001
<i>(in millions of Canadian dollars)</i>				
Accrued benefit obligation				
Balance, beginning of year	\$ 925	\$ 826	\$ 134	\$ 125
Service cost	44	43	4	4
Employee contributions	6	6	—	—
Interest cost	64	60	9	9
Benefits paid	(44)	(42)	(5)	(6)
Actuarial losses (gains)	11	16	4	1
Other	—	7	(1)	—
Effect of changes in currency exchange rates	21	9	—	1
Balance, end of year	\$ 1,027	\$ 925	\$ 145	\$ 134
Funded plan assets				
Fair value, beginning of year	\$ 1,156	\$ 1,257	\$ —	\$ —
Actual return on plan assets	(70)	(244)	—	—
Employer contributions	19	162	—	—
Employee contributions	6	6	—	—
Benefits paid	(44)	(42)	—	—
Other	—	7	—	—
Effect of changes in currency exchange rates	16	10	—	—
Fair value, end of year	\$ 1,083	\$ 1,156	\$ —	\$ —
Net funded status, end of year	\$ 56	\$ 231	\$ (145)	\$ (134)
Unamortized net actuarial losses (gains)	409	209	6	3
Unamortized transitional obligation (asset)	(252)	(268)	—	—
Prepaid (accrued) benefit asset (liability)	\$ 213	\$ 172	\$ (139)	\$ (131)

Included in the above aggregate of pension benefits plans are several individual plans that are in a net unfunded status. For these net unfunded plans, the accrued benefit obligations at the end of 2002 total \$320 million (\$114 million in 2001) and the fair value of plan assets total \$201 million (\$41 million in 2001). The other benefit obligations are supported by assets held within the Company's general fund.

The Company's net expense for defined benefit pension and post-retirement benefit plans is as follows:

(in millions of Canadian dollars)	Pension benefits			Other benefits		
	2002	2001	2000	2002	2001	2000
Service cost	\$ 44	\$ 43	\$ 34	\$ 4	\$ 4	\$ 5
Expected interest cost	64	60	54	9	9	8
Expected return on plan assets	(102)	(102)	(80)	—	—	—
Amortization of net actuarial losses (gains)	(5)	(10)	—	1	—	1
Amortization of transitional liability (asset)	(21)	(21)	(21)	—	—	—
Net benefit plan expense (recovery)	\$ (20)	\$ (30)	\$ (13)	\$ 14	\$ 13	\$ 14

The Company's net expense for defined contribution pensions is \$1 million (\$1 million in 2001 and \$2 million in 2000).

The significant assumptions adopted in measuring the Company's end-of-year accrued benefit obligations are as follows (weighted average assumptions):

	Pension benefits		Other benefits	
	2002	2001	2002	2001
Discount rate	6.48%	6.65%	6.97%	7.02%
Expected long-term rate of return on plan assets	7.10%	7.69%	—	—
Rate of compensation increase	4.63%	4.98%	5.38%	5.45%

The effect of a 1% increase or decrease in the weighted average expected long-term rate of return on plan assets on the 2002 pension expense would be a \$13 million decrease or increase, respectively.

Assumed health care cost trends have a significant effect on the amounts reported for the health care plan. The impact of a 1% change in the assumed health care cost trend rates would be as follows:

(in millions of Canadian dollars)	1% increase	1% decrease
Effect on total of service and interest costs for 2002	\$ 2	\$ (2)
Effect on year-end post-retirement benefit obligation for 2002	\$ 15	\$ (15)

The assumed weighted average increase in health care costs for 2002 is 7.1%, gradually decreasing to 5.5% by 2007 and remaining at that level thereafter.

19. SEGMENTED INFORMATION

(a) Basis of segmentation

The Company manages its business and distributes its general fund and segregated funds insurance and annuity products through operating divisions in Canada, the United Kingdom, the United States and the Republic of Ireland, as well as an International and Reinsurance Division and a Corporate Division. Each operating division includes branch operations and/or subsidiary companies, is organized to meet the needs of local markets and is responsible for its own product functions. The Corporate Division manages invested assets, provides certain administrative services and is responsible for capital management.

The operating divisions are charged overhead costs for head office corporate functions using cost allocations based on services provided. In addition, the operating divisions share in the net income from the assets backing equity. The total net income on the assets backing equity is allocated to the divisions based on the level of required capital deployed

in each division. The level of capital deployed is based on the MCCR for branch operations and on the actual equity held for subsidiary companies.

(b) Reportable information

The Company's primary sources of revenue are:

- premium income derived from life and health insurance products that provide protection against mortality and morbidity risks, and annuity products that provide asset accumulation or wealth management benefits;
- net investment income (which is detailed in note 7(c)); and
- fee and other income derived primarily from investment management services.

(c) Segmented information

(in millions of Canadian dollars)	Canada	United Kingdom	United States	Republic of Ireland	International and Reinsurance	Corporate	Total
2002							
Revenues							
Premiums							
Annuities	\$ 600	\$ 1,009	\$ 805	\$ 42	\$ 18	\$ —	\$ 2,474
Individual life and health insurance	595	144	427	93	251	—	1,510
Group life and health insurance	908	355	552	4	112	—	1,931
	2,103	1,508	1,784	139	381	—	5,915
Net investment income	897	384	705	55	67	46	2,154
Fee and other income	182	225	21	95	5	1	529
	3,182	2,117	2,510	289	453	47	8,598
Expenditures							
Payments to policyholders and beneficiaries	2,068	1,130	1,822	76	256	—	5,352
Increase in actuarial liabilities	249	568	252	25	35	—	1,129
General operating expenses	328	216	150	88	33	(1)	814
Commissions	173	81	119	70	96	—	539
Premium and other taxes (recovery)	58	—	18	(12)	2	—	66
Interest expense	—	4	—	—	1	33	38
Goodwill amortization	—	—	—	—	—	—	—
Non-controlling interest in subsidiary	—	—	—	—	—	25	25
Income tax provision (recovery)	113	(30)	51	7	6	(14)	133
	2,989	1,969	2,412	254	429	43	8,096
Net income including participating policyholders' net income (loss)	193	148	98	35	24	4	502
Participating policyholders' net income (loss)	1	—	(3)	5	—	—	3
Shareholders' net income	\$ 192	\$ 148	\$ 101	\$ 30	\$ 24	\$ 4	\$ 499
Preferred share dividends	—	—	—	—	—	9	9
Common shareholders' net income	\$ 192	\$ 148	\$ 101	\$ 30	\$ 24	\$ (5)	\$ 490
General fund assets	\$ 14,119	\$ 10,345	\$ 10,990	\$ 1,401	\$ 1,336	\$ —	\$ 38,191
Segregated funds							
Deposits	\$ 1,283	\$ 1,554	\$ 222	\$ 660	\$ 2	\$ —	\$ 3,721
Total assets	\$ 7,397	\$ 10,671	\$ 698	\$ 3,128	\$ 5	\$ —	\$ 21,899

(c) Segmented information (continued)

<i>(in millions of Canadian dollars)</i>	Canada	United Kingdom	United States	Republic of Ireland	International and Reinsurance	Corporate	Total
2001							
Revenues							
Premiums							
Annuities	\$ 499	\$ 674	\$ 790	\$ 286	\$ 23	\$ —	\$ 2,272
Individual life and health insurance	548	159	433	98	190	—	1,428
Group life and health insurance	846	246	448	7	111	—	1,658
	1,893	1,079	1,671	391	324	—	5,358
Net investment income	951	422	692	65	66	45	2,241
Fee and other income	177	208	16	58	5	1	465
	3,021	1,709	2,379	514	395	46	8,064
Expenditures							
Payments to policyholders and beneficiaries	2,069	927	1,758	94	370	—	5,218
Increase in actuarial liabilities	114	343	234	250	31	—	972
General operating expenses	323	206	155	74	35	1	794
Commissions	175	66	106	54	60	—	461
Premium and other taxes (recovery)	53	—	16	(9)	4	—	64
Interest expense	—	—	—	—	4	35	39
Goodwill amortization	2	20	2	—	1	—	25
Income tax provision (recovery)	123	25	30	13	(42)	4	153
	2,859	1,587	2,301	476	463	40	7,726
Net income (loss) including participating policyholders' net income (loss)	162	122	78	38	(68)	6	338
Participating policyholders' net income (loss)	1	—	(9)	4	—	—	(4)
Common shareholders' net income (loss)	\$ 161	\$ 122	\$ 87	\$ 34	\$ (68)	\$ 6	\$ 342
General fund assets	\$ 14,031	\$ 7,421	\$ 10,942	\$ 1,609	\$ 948	\$ —	\$ 34,951
Segregated funds							
Deposits	\$ 1,395	\$ 1,888	\$ 102	\$ 442	\$ 1	\$ —	\$ 3,828
Total assets	\$ 8,118	\$ 11,053	\$ 825	\$ 2,090	\$ 4	\$ —	\$ 22,090

(c) Segmented information (continued)

<i>(in millions of Canadian dollars)</i>	Canada	United Kingdom	United States	Republic of Ireland	International and Reinsurance	Total
2000						
Revenues						
Premiums						
Annuities	\$ 312	\$ 589	\$ 580	\$ 254	\$ 11	\$ 1,746
Individual life and health insurance	547	160	428	82	167	1,384
Group life and health insurance	890	206	343	8	99	1,546
	1,749	955	1,351	344	277	4,676
Net investment income	995	475	698	77	61	2,306
Fee and other income	177	221	21	57	3	479
	2,921	1,651	2,070	478	341	7,461
Expenditures						
Payments to policyholders and beneficiaries	2,231	704	1,679	112	198	4,924
Increase (decrease) in actuarial liabilities	(135)	539	51	222	30	707
General operating expenses	348	172	128	68	27	743
Commissions	155	73	86	42	53	409
Premium and other taxes (recovery)	53	—	13	(2)	4	68
Interest expense	23	—	12	—	4	39
Goodwill amortization	1	20	2	—	1	24
Income tax provision	122	31	25	11	6	195
	2,798	1,539	1,996	453	323	7,109
Net income including participating policyholders' net income (loss)	123	112	74	25	18	352
Participating policyholders' net income (loss)	—	—	(8)	3	1	(4)
Common shareholders' net income	\$ 123	\$ 112	\$ 82	\$ 22	\$ 17	\$ 356
General fund assets	\$ 13,970	\$ 6,855	\$ 9,870	\$ 1,300	\$ 741	\$ 32,736
Segregated funds						
Deposits	\$ 1,909	\$ 1,258	\$ 115	\$ 407	\$ 3	\$ 3,692
Total assets	\$ 8,326	\$ 11,219	\$ 854	\$ 1,980	\$ 4	\$ 22,383

20. DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes derivative financial instruments, including futures, forwards, options and swaps, when appropriate, to manage its asset/liability positions and to hedge against fluctuations in interest rates, foreign exchange rates and stock market indices. The Company does not enter into these financial instruments for trading or speculative purposes. Realized and unrealized gains and losses on these derivatives are included in net investment income or the currency translation account on a basis consistent with the underlying positions being hedged. Derivative assets

are included with the underlying assets being hedged, and derivative liabilities are included with other liabilities.

Derivative financial instruments are either negotiated over-the-counter between two counterparties or traded on a regulated exchange. The notional amounts of the over-the-counter and exchange-traded contracts are \$4,319 million (\$3,485 million in 2001) and \$814 million (\$674 million in 2001), respectively.

The following table summarizes the Company's outstanding derivative financial instruments:

(in millions of Canadian dollars)	Notional amount by remaining term to maturity				Fair value				
	Under 1 year	1 to 5 years	Over 5 years	Total	Positive	Negative	Net	Credit equivalent amount	Risk-weighted amount
2002									
Interest rate contracts:									
Swap contracts	\$ 29	\$ 242	\$ 314	\$ 585	\$ 12	\$ (19)	\$ (7)	\$ 18	\$ 7
Futures contracts	522	—	—	522	—	—	—	—	—
Options purchased	55	—	792	847	64	—	64	76	20
Sub-total	\$ 606	\$ 242	\$ 1,106	\$ 1,954	\$ 76	\$ (19)	\$ 57	\$ 94	\$ 27
Foreign exchange contracts:									
Swap contracts	71	98	867	1,036	3	(187)	(184)	73	28
Forward contracts	1,728	—	—	1,728	11	(47)	(36)	29	6
Sub-total	\$ 1,799	\$ 98	\$ 867	\$ 2,764	\$ 14	\$ (234)	\$ (220)	\$ 102	\$ 34
Equity contracts	415	—	—	415	14	(14)	—	25	5
Total	\$ 2,820	\$ 340	\$ 1,973	\$ 5,133	\$ 104	\$ (267)	\$ (163)	\$ 221	\$ 66
2001									
Interest rate contracts:									
Swap contracts	\$ 163	\$ 170	\$ 344	\$ 677	\$ 6	\$ (39)	\$ (33)	\$ 13	\$ 5
Futures contracts	633	—	—	633	—	—	—	—	—
Options purchased	43	50	721	814	64	—	64	74	20
Sub-total	\$ 839	\$ 220	\$ 1,065	\$ 2,124	\$ 70	\$ (39)	\$ 31	\$ 87	\$ 25
Foreign exchange contracts:									
Swap contracts	39	119	880	1,038	2	(129)	(127)	74	29
Forward contracts	840	—	—	840	1	(14)	(13)	10	2
Sub-total	\$ 879	\$ 119	\$ 880	\$ 1,878	\$ 3	\$ (143)	\$ (140)	\$ 84	\$ 31
Equity contracts	157	—	—	157	4	(2)	2	11	2
Total	\$ 1,875	\$ 339	\$ 1,945	\$ 4,159	\$ 77	\$ (184)	\$ (107)	\$ 182	\$ 58

Notional amount represents the face amount of derivative financial instruments to which a rate or price is applied to determine the amount of cash flows to be exchanged. It represents the volume of outstanding derivative financial instruments and does not represent the potential gain or loss associated with market risk or credit risk of such instruments.

Fair value of a derivative financial instrument is equivalent to the replacement cost. When available, quoted market prices are used. In all other cases, fair values are based on present value estimates of the future cash flows.

Positive fair value, representing an unrealized gain to the Company, is the maximum credit risk measured as of the balance sheet date if the counterparties were to default on their obligations to the Company.

Credit equivalent amount is the sum of maximum credit risk and the potential future credit exposure. The potential future credit exposure, which is calculated based on a formula prescribed by OSFI, represents the potential for future losses that may result from future changes in fair value.

Risk-weighted amount estimates actual credit risk for a derivative financial instrument based on the creditworthiness of the counterparty. OSFI prescribes a measure of counterparty credit risk to be applied to the credit equivalent amount to arrive at the risk-weighted amount.

21. COMMITMENTS AND CONTINGENCIES

(a) Legal proceedings and other matters

The Company has, in the normal course of business, a number of outstanding lawsuits. The aggregate liability, which may result from these lawsuits, is not considered to be a material amount.

In the United Kingdom, life insurance companies are required by the U.K. regulators to review and compensate policyholders who previously acquired personal pension and free-standing additional voluntary contribution products offered by such companies in situations in which they could otherwise have remained in or joined employer-sponsored pension plans and who suffered a financial loss as a result. The Company carried a provision of \$25 million at December 31, 2002 (\$111 million in December 31, 2001). During 2002, the provision was reduced by \$86 million, primarily for payments to policyholders during the year and for the costs for the review process. The respective provision and payments are net of estimated and actual recoveries from vendors of the businesses acquired by the Company in the United Kingdom. This provision is based on management's current estimate, and the amount of the actual compensation to policyholders is not expected to exceed this amount.

(b) Securities lending

The Company lends its own securities for periods of time to other institutions on a fully collateralized basis in order to generate additional income. Collateral, which exceeds the market value of the loaned securities, is deposited by the borrower with the Company's custodian and retained by the custodian until the underlying security has been returned

to the Company. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market values fluctuate. Loaned securities (included in invested assets) at December 31, 2002 had a carrying value and market value of \$620 million and \$691 million, respectively (\$1,264 million and \$1,353 million, respectively, in 2001).

(c) Crown acquisition arrangements

As part of the 1999 acquisition of the majority of Crown Life's insurance operations, the Company has the option, or may be required, to acquire the common shares of Crown Life and, through assumption reinsurance, the remaining insurance business of Crown Life at any time after January 1, 2004, in which case Canada Life would receive assets with a value equal to the liabilities assumed. The purchase price for the shares would be the fair value of the assets backing Crown Life's common shareholders' equity.

(d) Operating lease commitments

The Company leases offices and certain equipment, which are operating leases with rents charged to operations in the year to which they relate. Total future rental payments are \$324 million, with annual payments of \$64 million for 2003, \$55 million for 2004, \$46 million for 2005, \$33 million for 2006, \$24 million for 2007 and \$102 million thereafter.

Rent expense incurred for the year ended December 31, 2002 was \$43 million (\$45 million in 2001 and \$44 million in 2000).

22. SUBSEQUENT EVENTS

(a) Acquisition

On January 1, 2003, the Company completed the acquisition of the Irish-based German life operations of a significant international insurer for \$205 million. The transaction involved the transfer of a block of business to the Company for \$158 million, primarily consisting of liabilities for unit-linked and critical illness products. This transfer will require High Court approval in Ireland, which is expected to be received in 2003. In the interim, the business will be reinsured by the Company. Additionally, the Company acquired a Germany-based sales and marketing company for \$40 million, and an Irish-based life company for \$7 million. Immediately following the acquisition, the Company entered into assumed reinsurance arrangements on the transferred block of business, for which it received \$107 million.

(b) Recommendation to common shareholders

On January 13, 2003, the Company's Board of Directors issued a recommendation to the Company's common shareholders to reject an offer made on December 27, 2002 by Manulife Financial Corporation to acquire all of the outstanding common shares of the Company. It is not possible to project the outcome of the offer nor the impact on the Company's future results.

23. MATERIAL DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Consolidated Financial Statements of the Company are presented in accordance with Canadian GAAP. Canadian GAAP differs in certain material respects from United States generally accepted accounting principles ("U.S. GAAP").

The 2001 U.S. GAAP condensed consolidated statements of net income and condensed balance sheets have been revised due to computation adjustments and as a result, actuarial liabilities have decreased by \$30 million and future income tax liabilities have increased by \$30 million. There was no impact on 2001 net income.

(a) Condensed consolidated statements of net income and comprehensive income

U.S. GAAP includes comprehensive income, which is a measure of changes in the equity of the Company during the year. It is comprised of both net income and other comprehensive income, which includes changes to deferred acquisition costs and other liabilities and the income tax effect arising from the unrealized gains and losses on securities classified as available for sale.

(i) Condensed consolidated statements of net income

	U.S. GAAP		
For the years ended December 31 (in millions of Canadian dollars, except per share data)	2002	2001	2000
Revenues			
Premiums	\$ 4,616	\$ 3,851	\$ 3,569
Net investment income	1,960	1,918	2,046
Net realized investment gains	26	60	749
Fee and other income	626	603	707
	7,228	6,432	7,071
Expenditures			
Payments to policyholders and beneficiaries	4,442	4,128	3,892
Increase in actuarial liabilities	942	780	1,180
Expenses, including commissions, interest and premium taxes	1,672	1,347	1,142
	7,056	6,255	6,214
Net income before income tax provision	172	177	857
Income tax provision	4	133	353
Net income including participating policyholders' net income (loss)	168	44	504
Participating policyholders' net income (loss)	(38)	(7)	6
Shareholders' net income	\$ 206	\$ 51	\$ 498
Preferred share dividends	(9)	—	—
Common shareholders' net income	\$ 197	\$ 51	\$ 498
Earnings per common share			
Common shareholders' net income	\$ 197	\$ 51	\$ 498
Weighted daily average number of common shares outstanding	160.4	160.4	160.4
Add: dilutive effect of stock options granted and outstanding	—	0.2	—
Weighted daily average diluted number of common shares outstanding	160.4	160.6	160.4
Basic and diluted earnings per common share	\$ 1.23	\$ 0.32	\$ 3.10

(ii) Condensed consolidated statements of comprehensive income

	U.S. GAAP		
For the years ended December 31 (in millions of Canadian dollars)	2002	2001	2000
Common shareholders' net income	\$ 197	\$ 51	\$ 498
Other comprehensive income (loss), net of tax:			
Currency translation account movement for the year ¹	\$ 88	\$ 76	\$ (7)
Net unrealized gains (losses):			
Bonds	761	118	495
Derivatives	(47)	5	—
Common and preferred stocks	(162)	(175)	(320)
Deferred acquisition costs	(73)	(9)	(126)
Actuarial liabilities	(260)	342	(293)
Policyholder dividend obligation	(63)	(126)	—
Value of business acquired	(9)	(10)	—
Minimum pension liability	(108)	—	—
Future income taxes	(142)	(105)	98
Other comprehensive income (loss)	\$ (15)	\$ 116	\$ (153)
Total comprehensive income	\$ 182	\$ 167	\$ 345

¹ Fiscal 2001 includes \$33 million of after-tax losses arising from hedges of the Company's investment positions in foreign operations.

(b) Condensed consolidated balance sheets

The following balance sheet items of the Company as at December 31, 2002 and 2001, reflect the impact of valuation, income recognition and presentation differences between Canadian GAAP and U.S. GAAP.

As at December 31 (in millions of Canadian dollars)

	2002		2001	
	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
Assets				
Bonds	\$ 22,317	\$ 23,982	\$ 19,046	\$ 19,866
Mortgages	7,622	7,569	7,996	7,993
Common and preferred stocks	2,073	1,884	2,475	2,571
Real estate	1,066	850	941	779
Other investments	3,396	3,398	2,987	3,162
Deferred acquisition costs	—	1,568	—	1,415
Future income taxes	303	269	394	174
Reinsurance deposits and amounts recoverable	117	860	155	983
Other assets	1,297	1,822	957	1,333
Segregated funds ¹	—	21,899	—	22,090
Total assets	\$ 38,191	\$ 64,101	\$ 34,951	\$ 60,366
Liabilities and Equity				
Actuarial liabilities	\$ 29,050	\$ 33,633	\$ 27,169	\$ 30,929
Other policy liabilities	1,512	1,822	1,443	1,808
Net deferred gains	1,472	—	1,491	—
Future income taxes	53	359	—	216
Other liabilities	1,137	1,366	875	794
Subordinated debentures	550	550	550	550
Non-controlling interest in subsidiary	450	450	—	—
Segregated funds ¹	—	21,899	—	22,090
	34,224	60,079	31,528	56,387
Equity				
Participating policyholders' equity	48	2	40	40
Share capital	462	448	462	448
Retained earnings	3,457	2,967	2,921	2,871
Accumulated other comprehensive income	—	605	—	620
	3,967	4,022	3,423	3,979
Total liabilities and equity	\$ 38,191	\$ 64,101	\$ 34,951	\$ 60,366

¹ U.S. GAAP terminology is Separate accounts. In Canadian GAAP, segregated funds are included separately from the general funds.

Changes in retained earnings and accumulated other comprehensive income were as follows:

	U.S. GAAP		
	2002	2001	2000
For the years ended December 31 (in millions of Canadian dollars)			
Retained earnings, beginning of year	\$ 2,871	\$ 2,904	\$ 2,483
Shareholders' net income	206	51	498
Dividends paid to preferred shareholders	(9)	—	—
Dividends paid to common shareholders	(96)	(84)	(77)
Issuance costs	(5)	—	—
Retained earnings, end of year	\$ 2,967	\$ 2,871	\$ 2,904
Accumulated other comprehensive income, beginning of year	\$ 620	\$ 504	\$ 657
Other comprehensive income (loss)	(15)	116	(153)
Accumulated other comprehensive income, end of year	\$ 605	\$ 620	\$ 504

Reconciliation of total equity from Canadian GAAP to U.S. GAAP:

For the years ended December 31 <i>(in millions of Canadian dollars)</i>	2002	2001
Equity		
Canadian GAAP equity	\$ 3,967	\$ 3,423
Current year adjustment to consolidated net income	(334)	(294)
Current year adjustment to other comprehensive income	(167)	28
Cumulative effect of prior year adjustment to consolidated net income	(102)	192
Cumulative effect of prior year adjustment to other comprehensive income	658	630
U.S. GAAP equity	\$ 4,022	\$ 3,979

(c) Reconciliation of selected Canadian GAAP Financial Statement information to U.S. GAAP

The following table provides a reconciliation of Canadian GAAP shareholders' net income to U.S. GAAP shareholders' net income:

For the years ended December 31 <i>(in millions of Canadian dollars)</i>	2002	2001	2000
Shareholders' net income determined in accordance with Canadian GAAP	\$ 499	\$ 342	\$ 356
Adjustments in respect of:			
Bonds	61	(32)	1
Mortgages	12	—	3
Common and preferred stocks	(214)	(148)	164
Real estate	(40)	(4)	270
Cumulative effect of adopting FAS 133	—	(25)	—
Deferred acquisition costs	(70)	32	209
Actuarial liabilities	(78)	(77)	(313)
Value of business acquired and goodwill amortization	(98)	(5)	(62)
Other items	5	(53)	29
Future income taxes	129	21	(159)
Shareholders' net income determined in accordance with U.S. GAAP	\$ 206	\$ 51	\$ 498

(d) Additional information required to be reported under U.S. GAAP

(i) Deferred acquisition costs

Changes in deferred acquisition costs were as follows:

<i>(in millions of Canadian dollars)</i>	2002	2001
Balance, beginning of year	\$ 1,415	\$ 1,318
Capitalization	326	286
Accretion of interest	115	80
Amortization	(327)	(301)
Effect of net unrealized gains and losses on bonds and stocks	(68)	(9)
Other	58	—
Foreign currency translation adjustment	49	41
Balance, end of year	\$ 1,568	\$ 1,415

(ii) Investments

The net unrealized investment gains (losses), which are included in the Consolidated Balance Sheets as a component of equity, were as follows:

<i>(in millions of Canadian dollars)</i>	2002	2001
Gross unrealized gains	\$ 2,224	\$ 1,622
Gross unrealized losses	(339)	(288)
	1,885	1,334
Effect on deferred acquisition costs	(278)	(201)
Effect on actuarial liabilities	(633)	(314)
Effect on future income taxes	(280)	(139)
Effect on value of business acquired	(19)	(10)
Total	\$ 675	\$ 670

(e) The following provides a general review of the material valuation and income recognition differences between Canadian GAAP and U.S. GAAP.

For a complete description of Canadian GAAP accounting policies, refer to Note 2.

(i) Bonds: Under U.S. GAAP, bonds may be classified as available for sale, held to maturity or trading securities. All bonds are classified as available for sale by the Company. Bonds accounted for as available for sale are carried at fair value. A decline in the value of a specific bond that is considered other than temporary results in a write-down of the bond value through a charge to income in the period of recognition. Realized gains and losses on disposal are immediately recognized in income. Unrealized gains and losses on bonds classified as available for sale are excluded from income and are reported net of tax as other comprehensive income.

Under Canadian GAAP, bonds are carried at amortized cost, less an allowance for specific losses, with realized gains and losses on disposal deferred and brought into income over the remaining term to maturity.

(ii) Mortgages: Under U.S. GAAP, mortgages are carried at amortized cost less repayments and an allowance for specific losses. Realized gains and losses on disposal are recognized in income immediately.

Under Canadian GAAP, mortgages are also carried at amortized cost less repayments and an allowance for specific losses, however, realized gains and losses on disposal are deferred and amortized into income over the remaining term of the mortgage sold.

(iii) Stocks: Under U.S. GAAP, stocks may be classified as available for sale or trading securities. All stocks are classified as available for sale by the Company and are carried at fair value. Realized gains and losses on disposal are immediately recognized in income. Unrealized gains or losses on stocks classified as available for sale are excluded from income and are reported net of tax as other comprehensive income. Other than temporary declines in the value of stocks result in a write-down of the stock value through a charge to income in the period of recognition.

Under Canadian GAAP, stocks are carried at a value that is adjusted toward fair value each quarter at a rate of 5% of the difference between the carrying value and period-end fair value, with this adjustment being reflected in net income. Net realized gains and losses on disposal are deferred and amortized to net income on a declining balance basis at 5% per quarter.

(iv) Real estate: Under U.S. GAAP, real estate is carried at cost less accumulated amortization. Realized gains and losses on disposal are recognized in income as they occur. Unrealized gains and losses are not recognized. Specific properties are written down to fair value if an impairment in the value of the property is considered to be other than temporary.

Under Canadian GAAP, real estate, including Company occupied premises, is carried at a value that is adjusted toward fair value each quarter at a rate of 3% of the difference between the carrying value and period-end appraised value, with this adjustment being reflected in net income. Net realized gains and losses on disposal are deferred and amortized to net income on a declining balance basis at 3% per quarter. Specific properties are written down to fair value if an impairment in the value of the property is considered to be other than temporary.

(v) Deferred acquisition costs ("DAC"): Under U.S. GAAP, the costs of acquiring new business that vary with and are related primarily to the production of new business are deferred and recorded as an asset to the extent such costs are deemed recoverable from future profits. DAC consists principally of commissions, and policy issue and underwriting expenses.

The amortization of the costs is dependent on the type of policy to which the costs relate. For non-participating traditional life and annuity policies with life contingencies, DAC is amortized in proportion to expected future premiums. Assumptions on expected future premiums are made at the date of policy issue and are consistently applied over the life of the contracts. For participating traditional life, universal life and investment-type contracts, DAC is amortized and charged to income in proportion to the estimated gross profit margins expected to be realized over the life of the contract. The assumptions used to estimate future gross profits change as experience emerges. In addition, DAC relating to these contracts is adjusted to reflect the changes that would have been necessary if the unrealized gains and losses on the bonds and stocks classified as available for sale had actually been realized. This adjustment is not included in income but is recognized directly in equity.

Under Canadian GAAP, Life SOP allows the amortization of acquisition expenses over a period extending beyond the term of the liability of certain products, such as segregated funds products without material insurance components, and group life and health products with short guaranteed periods, to the extent that these acquisition expenses are recoverable. The amount of DAC is included as a negative reserve in the actuarial liabilities.

(vi) Actuarial liabilities: Under U.S. GAAP, there are three main standards for valuing actuarial liabilities, depending on the nature of the insurance contract.

For traditional non-participating contracts, disability insurance and reinsurance contracts, actuarial liabilities are calculated using a net level premium method, where the liabilities represent the present value of future benefits to be paid and related expenses less the present value of future net premiums. The assumptions used are based on best estimates at the time the policy is issued, with a mild provision for adverse deviation. The assumptions are not changed (locked in) for future valuations unless it is determined that future income is no longer adequate to recover the existing DAC. In this case, this DAC is reduced or written off, and, if necessary, actuarial liabilities are increased. The actuarial liabilities may not subsequently be reduced if the circumstances causing the strengthening of actuarial liabilities no longer apply.

For universal life and investment-type contracts, the actuarial liabilities are equal to the policyholder account values. The assumptions used are based on best estimates without any provision for adverse deviation and are not locked in. If it is determined that the future income for universal life-type contracts is no longer adequate to recover the existing DAC, these costs would be reduced or written off, and actuarial liabilities would increase as necessary. The actuarial liabilities may not subsequently be reduced if the circumstances causing the strengthening no longer apply.

For participating contracts, the actuarial liability is computed using a net level premium method. The assumptions used are based on best estimates without any provision for adverse deviation and are not locked in. If it is determined that future income is no longer adequate to recover the existing DAC, the DAC is reduced or written off, and, if necessary, actuarial liabilities are increased. The actuarial liabilities may not subsequently be reduced if the circumstances causing the strengthening no longer apply.

In addition, U.S. GAAP requires that certain actuarial liabilities be adjusted to reflect the changes that would have been necessary if the unrealized gains on stocks and bonds classified as available for sale had been realized. This adjustment is not included in income but is reported as other comprehensive income.

Under Canadian GAAP, the Company follows Life SOP issued by the Canadian Institute of Actuaries for the calculation of actuarial liabilities.

Life SOP allows the amortization of acquisition expenses over a period extending beyond the term of the liability of certain products, such as segregated funds products without material insurance components, and group life and health products with short guaranteed periods, to the extent that these acquisition expenses are recoverable. The actuarial liabilities represent the amount required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commissions, and policy maintenance expenses for all insurance and annuity policies in force with the Company. Actuarial liabilities are comprised of a best estimate reserve and provisions for adverse deviation. Assumptions are updated regularly, and the effects of any changes in assumptions are recognized in income immediately.

(vii) Deferred revenue: Under U.S. GAAP, for universal life insurance and investment-type contracts, fees charged to policyholders relating to future services to be provided are recorded as deferred revenue and are amortized to income in the same manner as DAC.

Under Canadian GAAP, all premium income is recorded as revenue when due and the anticipated costs of future services are included within actuarial liability calculations.

(viii) Business combinations and goodwill: Under U.S. GAAP, the actuarial liabilities assumed on acquisition of a business are valued in accordance with the policies described in the Actuarial Liabilities discussion using current assumptions as at the date of acquisition. The present value of future profits on the in force business acquired is recognized as an intangible asset and is amortized over future periods, on a basis consistent with the amortization of DAC as described above. Goodwill represents the excess of cost over the sum of the estimated fair value of net assets, including the present value of future profits on the in force business acquired. Effective January 1, 2002, the Company adopted the new U.S. Financial Accounting Standards Board (FASB) recommendations for Business Combinations and Goodwill and Other Intangible Assets, at which time goodwill was no longer amortized.

Under Canadian GAAP, the actuarial liabilities assumed on acquisition of a business are valued based on accepted actuarial practice following the CALM, including the use of best estimate assumptions as at the date of acquisition. Goodwill represents the excess of cost over the estimated fair value of the net assets acquired as at the date of acquisition. Effective January 1, 2002, the Company adopted the new CICA recommendations for Business Combinations and Goodwill and Other Intangible Assets, at which time goodwill was no longer amortized. Refer to note 2(a)(i) for a description of changes to this policy.

(ix) Policyholders' dividend obligation ("PDO"): Under U.S. GAAP, in determining net income attributed to closed participating blocks of business arising from demutualization, when there is a limit on the amount of earnings that can be distributed to shareholders, the excess of cumulative actual closed block earnings over cumulative expected earnings on a U.S. GAAP basis is set up as a PDO to the participating policyholders. For open blocks of participating business, earnings in excess of the shareholder transfer (3.5% of dividends paid) are set up as PDO. The amount of the PDO as at December 31, 2002 is \$183 million (\$134 million for 2001) and is included in the actuarial liabilities.

Under Canadian GAAP, net income attributable to closed blocks of business arising from demutualization is recognized in the participating policyholders' account as earned.

(x) Accounting for derivatives: Under U.S. GAAP, the Company recognizes all derivatives as assets or liabilities on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value

through income. Derivatives that qualify as hedges must be designated as hedging instruments, based on the exposure being hedged, either as a fair value hedge, a cash flow hedge, or a hedge of a net investment in a foreign operation.

Under Canadian GAAP, the Company utilizes derivative financial instruments, including swaps, forward contracts, futures and options, when appropriate, to manage its asset/liability positions and to hedge against fluctuations in interest rates, foreign exchange rates and stock market indices. Realized and unrealized gains and losses resulting from the use of these derivative financial instruments are included in income on a basis consistent with the underlying positions being hedged.

(xi) Income tax rates: Under U.S. GAAP, future income tax liabilities and assets are recognized based on the differences between the accounting values of assets and liabilities and their related tax bases using currently enacted income tax rates.

Under Canadian GAAP, future income tax liabilities and assets are recorded based on substantially enacted income tax rates.

(xii) Minimum pension liability: Under U.S. GAAP, the excess of any unfunded accumulated benefit obligation is required to be reflected as an additional minimum pension liability in the Consolidated Balance Sheets with an offsetting adjustment to intangible assets to the extent of unrecognized prior service costs, with the remainder recorded in other comprehensive income. Under Canadian GAAP, there is no requirement to reflect a minimum pension liability.

(f) The following provides a general review of the material presentation differences between Canadian GAAP and U.S. GAAP.

(I) Premium revenue: Under U.S. GAAP, premiums collected on universal life insurance and investment contracts (such as annuities) are not reported as revenue in the Consolidated Statements of Net Income but are recorded as deposits to policyholders' account balances. Fees assessed against the policyholders relating to the contracts are recognized as revenue.

Under Canadian GAAP, premium income is reported as revenue when due. A partially offsetting increase in actuarial liabilities for the related policies is recorded in the Consolidated Statements of Net Income.

(II) Reinsurance: Under U.S. GAAP, reinsurance recoverables are presented on a gross basis as a separate balance sheet asset, rather than netted against the related liabilities.

Under Canadian GAAP, reinsurance recoverables from ceded contracts are recorded as an offset against policy liabilities.

(III) Segregated funds assets and liabilities: Under U.S. GAAP, segregated funds assets and liabilities are separately presented in summary lines on the balance sheet, titled "separate accounts".

Under Canadian GAAP, segregated funds are managed separately from the general fund of the Company. Therefore, they are reported separately from the general fund assets and liabilities on the Consolidated Balance Sheets.

(IV) Statement of cash flows: Under U.S. GAAP, the cash flows from investment contracts are disclosed as a financing activity.

Under Canadian GAAP, the cash flows from investment contracts, including deferred annuities and group pensions, are disclosed as an operating activity.

Table 1 – Financial Highlights¹

As at or for the years ended December 31

(in millions of Canadian dollars except per share and percentage amounts)

	Public Company				Mutual Company		
	2002	2001 ²	2000	1999	1998 ²	1997	1996
PERFORMANCE MEASURES							
Net income ³	\$ 490	\$ 342	\$ 356	\$ 321	\$ 88	\$ 266	\$ 219
Earnings per common share ³	\$ 3.05	\$ 2.13	\$ 2.22	\$ 2.00	N/A	N/A	N/A
Book value per common share ³	\$ 23.53	\$ 20.19	\$ 18.03	\$ 17.64	N/A	N/A	N/A
Return on equity ³	14.0%	11.1%	12.9%	11.6%	3.3%	10.6%	9.7%
MCCSR ratio ⁴	202%	191%	197%	190%	212%	213%	232%
PREMIUMS, PREMIUM EQUIVALENTS AND NEW DEPOSITS							
General fund premiums	\$ 5,915	\$ 5,358	\$ 4,676	\$ 4,821	\$ 3,980	\$ 3,315	\$ 3,122
Segregated funds deposits	3,721	3,828	3,692	2,737	2,118	1,944	1,354
ASO premium equivalents and other deposits	2,372	2,043	882	N/AV	N/AV	N/AV	N/AV
	\$ 12,008	\$ 11,229	\$ 9,250	\$ 7,558	\$ 6,098	\$ 5,259	\$ 4,476
ASSETS UNDER ADMINISTRATION							
General fund	\$ 38,191	\$ 34,951	\$ 32,736	\$ 30,728	\$ 26,284	\$ 23,503	\$ 22,341
Segregated funds	21,899	22,090	22,383	21,875	18,672	16,136	9,388
Other assets ⁵	7,913	8,384	8,138	2,652	2,437	3,353	3,206
	\$ 68,003	\$ 65,425	\$ 63,257	\$ 55,255	\$ 47,393	\$ 42,992	\$ 34,935
LIFE INSURANCE IN FORCE							
Individual	\$ 213,011	\$ 166,758	\$ 142,661	\$ 125,193	\$ 83,339	\$ 75,210	\$ 64,479
Group	663,901	345,015	271,031	245,115	217,788	184,797	166,128
	\$ 876,912	\$ 511,773	\$ 413,692	\$ 370,308	\$ 301,127	\$ 260,007	\$ 230,607

Table 2 – Consolidated Statements of Net Income¹

For the years ended December 31

(in millions of Canadian dollars)

	Public Company				Mutual Company		
	2002	2001 ²	2000	1999	1998 ²	1997	1996
REVENUES							
Premiums	\$ 5,915	\$ 5,358	\$ 4,676	\$ 4,821	\$ 3,980	\$ 3,315	\$ 3,122
Net investment income	2,154	2,241	2,306	2,321	1,964	1,842	1,734
Fee and other income	529	465	479	393	331	231	191
	8,598	8,064	7,461	7,535	6,275	5,388	5,047
EXPENDITURES							
Payments to policyholders and beneficiaries	5,352	5,218	4,924	4,750	4,002	4,175	3,541
Increase in actuarial liabilities	1,129	972	707	1,133	1,061	39	478
General operating expenses	814	794	743	681	659	482	448
Commissions	539	461	409	386	275	210	183
Other	129	128	131	137	140	93	69
	7,963	7,573	6,914	7,087	6,137	4,999	4,719
Net income before income tax provision	635	491	547	448	138	389	328
Income tax provision	133	153	195	128	50	123	109
Net income³	502	338	352	320	88	266	219
Participating policyholders' net income (loss)	3	(4)	(4)	(1)	—	—	—
Preferred share dividends	9	—	—	—	—	—	—
Common shareholders' net income	\$ 490	\$ 342	\$ 356	\$ 321	N/A	N/A	N/A

N/A – not applicable N/AV – not available

¹ The Company adopted new Standards of Practice for the Valuation of Policy Liabilities of Life Insurers issued by the Canadian Institute of Actuaries in 2001 that were retroactively applied to 2000. The 1999 and prior years' figures have not been restated for this change.² Common shareholders' net income for 2001 of \$342 million includes a charge of \$85 million net of tax for expected claims arising from September 11, 2001. Excluding this provision, net income for 2001 would have been \$427 million. Net income for 1998 of \$88 million includes provisions of \$182 million net of tax for two industry-wide issues in the United Kingdom. Excluding these provisions, net income would have been \$270 million for the year ended December 31, 1998.³ The Company demutualized on November 4, 1999 and for 1999, net income was originally presented as \$249 million prior to demutualization and \$72 million post demutualization. For comparative purposes, the 1999 shareholders' net income has been presented on a pro forma basis assuming the total net income in 1999 was attributable to shareholders. The 1998 and prior years' figures have not been presented on this basis.⁴ Minimum Continuing Capital and Surplus Requirements (MCCSR) is calculated in accordance with capital standards set by the Company's primary regulator, the Office of the Superintendent of Financial Institutions, Canada.⁵ Other deposits are included in other assets administered by the Company on behalf of third parties and are not included in general or segregated funds of the Company.

Table 3 – Balance Sheets¹

As at December 31 (in millions of Canadian dollars)	Public Company				Mutual Company		
	2002	2001	2000	1999	1998	1997	1996
ASSETS							
Invested assets							
Bonds	\$ 22,317	\$ 19,046	\$ 17,681	\$ 16,400	\$ 13,650	\$ 12,464	\$ 11,325
Mortgages	7,622	7,996	7,583	7,117	6,351	5,744	5,287
Common and preferred stocks	2,073	2,475	2,002	1,868	1,833	1,577	1,295
Real estate	1,066	941	851	974	993	961	1,272
Policy loans	1,113	1,070	988	942	489	459	437
Cash, cash equivalents and short-term investments	1,159	1,142	1,424	1,033	1,271	1,018	1,736
Other	1,124	775	594	673	565	363	323
Total invested assets	36,474	33,445	31,123	29,007	25,152	22,586	21,675
Other assets	1,717	1,506	1,613	1,721	1,132	917	666
Total general fund assets	\$ 38,191	\$ 34,951	\$ 32,736	\$ 30,728	\$ 26,284	\$ 23,503	\$ 22,341
Segregated funds net assets	\$ 21,899	\$ 22,090	\$ 22,383	\$ 21,875	\$ 18,672	\$ 16,136	\$ 9,388
LIABILITIES AND EQUITY							
Policy liabilities	\$ 30,562	\$ 28,612	\$ 26,686	\$ 25,053	\$ 20,550	\$ 18,831	\$ 18,321
Net deferred gains	1,472	1,491	1,543	1,326	1,380	937	668
Other liabilities	1,190	875	1,021	922	1,110	854	737
	33,224	30,978	29,250	27,301	23,040	20,622	19,726
Subordinated debentures	550	550	550	550	550	250	250
Non-controlling interest in subsidiary	450	—	—	—	—	—	—
Equity							
Participating policyholders' equity ²	48	40	44	47	2,694	2,631	2,365
Shareholders' equity							
Preferred shares	145	145	—	—	N/A	N/A	N/A
Common shares	317	317	317	317	N/A	N/A	N/A
Retained earnings	3,457	2,921	2,575	2,513	N/A	N/A	N/A
	3,967	3,423	2,936	2,877	2,694	2,631	2,365
Total general fund liabilities and equity	\$ 38,191	\$ 34,951	\$ 32,736	\$ 30,728	\$ 26,284	\$ 23,503	\$ 22,341
Segregated funds net liabilities	\$ 21,899	\$ 22,090	\$ 22,383	\$ 21,875	\$ 18,672	\$ 16,136	\$ 9,388

¹ The Company adopted new Standards of Practice for the Valuation of Policy Liabilities of Life Insurers issued by the Canadian Institute of Actuaries in 2001 that were retroactively applied to 2000. The 1999 and prior years' figures have not been restated for this change.

² The 1998 opening policyholders' equity has been restated to reflect a change in accounting policy for future income taxes. The 1997 and prior years' figures have not been restated for this change.

Table 4 – Quarterly Information

(in millions of Canadian dollars except per share and percentage amounts)	2002					2001				
	Q4	Q3	Q2	Q1	Fiscal	Q4	Q3	Q2	Q1	Fiscal
PERFORMANCE MEASURES										
Common shareholders' net income	\$ 131	\$ 114	\$ 125	\$ 120	\$ 490	\$ 38	\$ 91	\$ 114	\$ 99	\$ 342
Earnings per common share	\$ 0.81	\$ 0.71	\$ 0.78	\$ 0.75	\$ 3.05	\$ 0.23	\$ 0.57	\$ 0.71	\$ 0.62	\$ 2.13
Book value per common share	\$ 23.53	\$ 22.64	\$ 21.04	\$ 20.59		\$ 20.19	\$ 20.10	\$ 18.79	\$ 18.88	
Return on common shareholders' equity (12 months)	14.0%	11.6%	11.7%	11.5%		11.1%	13.2%	14.0%	13.5%	
MCCSR ratio ¹	202%	214%	212%	213%		191%	184%	184%	190%	
Dividends paid per common share	\$ 0.15	\$ 0.15	\$ 0.15	\$ 0.15	\$ 0.60	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.52
PREMIUMS, PREMIUM EQUIVALENTS AND NEW DEPOSITS										
General fund premiums	\$ 1,624	\$ 1,561	\$ 1,413	\$ 1,317	\$ 5,915	\$ 1,372	\$ 1,335	\$ 1,314	\$ 1,337	\$ 5,358
Segregated funds deposits	926	862	1,028	905	3,721	838	917	904	1,169	3,828
ASO premium equivalents and other deposits ²	771	389	598	614	2,372	505	499	479	560	2,043
	\$ 3,321	\$ 2,812	\$ 3,039	\$ 2,836	\$ 12,008	\$ 2,715	\$ 2,751	\$ 2,697	\$ 3,066	\$ 11,229
ASSETS UNDER ADMINISTRATION										
General fund	\$ 38,191	\$ 36,663	\$ 35,241	\$ 34,849		\$ 34,951	\$ 34,326	\$ 33,032	\$ 33,493	
Segregated funds	21,899	20,776	21,929	23,005		22,090	20,093	21,105	21,104	
Other assets ²	7,913	7,725	8,279	8,669		8,384	8,187	8,303	8,202	
	\$ 68,003	\$ 65,164	\$ 65,449	\$ 66,523		\$ 65,425	\$ 62,606	\$ 62,440	\$ 62,799	

¹ Minimum Continuing Capital and Surplus Requirements (MCCSR) is calculated in accordance with capital standards set by the Company's primary regulator, the Office of the Superintendent of Financial Institutions, Canada.

² Other deposits are included in other assets administered by the Company on behalf of third parties and are not included in general or segregated funds of the Company.

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Ancaster, Ontario, Canada

George S. Bain

President and Vice-Chancellor
The Queen's University of Belfast
Belfast, Northern Ireland

Angus A. Bruneau

Chairman
Fortis Inc.
*St. John's, Newfoundland
and Labrador, Canada*

Jean F. Chagnon

President and Chief Executive Officer
Lallemand Inc.
Montreal, Quebec, Canada

John R. Hall

Corporate Director
Former Chairman and
Chief Executive Officer
Ashland Oil, Inc.
Lexington, Kentucky, U.S.A.

Michael L. Hepher

Chairman
TeleCity plc
Weybridge, England

David W. Kerr

Chairman
Noranda Inc.
Toronto, Ontario, Canada

J. Spencer Lanthier

Corporate Director
Former Chairman and
Chief Executive Officer
KPMG Canada
Toronto, Ontario, Canada

David W. Lay

Corporate Director
Toronto, Ontario, Canada

Diane E. McGarry

Chief Marketing Officer
Xerox Corporation
New York, New York, U.S.A.

Robert T. F. Reid

Chair
B.C. Transmission Corporation
*West Vancouver,
British Columbia, Canada*

Cedric E. Ritchie

Corporate Director
Former Chairman of the Board
and Chief Executive Officer
The Bank of Nova Scotia
Toronto, Ontario, Canada

T. Iain Ronald

Corporate Director
Former Vice-Chairman
Canadian Imperial Bank
of Commerce
Toronto, Ontario, Canada

Arthur R. A. Scace

Lead Director
Partner, McCarthy Tétrault LLP
Former Chairman,
McCarthy Tétrault LLP
Toronto, Ontario, Canada

John D. Wetmore

Vice-President
ibm.com, Americas
Toronto, Ontario, Canada

Senior Officers

David A. Nield

B.Comm., F.S.A., F.C.I.A.

Chairman and Chief Executive Officer

William L. Acton

F.S.A., F.C.I.A.

President and Chief Operating Officer

Diane Barsoski

B.Sc., B.Ed., M.Ed.

Senior Vice-President,
Human Resources

Andrew D. Brands

LL.B.

Senior Vice-President and
General Counsel

Patrick G. Crowley

H.B.A., C.A.

Executive Vice-President and
Chief Financial Officer

Roy W. Linden

LL.B.

Secretary and Chief Compliance Officer

D. Allen Loney

F.I.A., F.C.I.A.

Senior Vice-President and Chief Actuary

Robert W. Morrison

C.F.A.

Senior Vice-President and
Chief Investment Officer

Robert M. Smithen

B.Sc., M.Sc., F.S.A., F.C.I.A.

Executive Vice-President

J. David Williamson

B.Comm., C.A.

Senior Vice-President, Strategic Planning
and Business Development

Audit and Risk Management	Conduct Review	Corporate Governance	Human Resources	Pension	Special
Angus A. Bruneau	James C. Alfano	George S. Bain	George S. Bain	James C. Alfano	David W. Lay
Michael L. Hepher	Angus A. Bruneau*	David W. Kerr	John R. Hall	Angus A. Bruneau	Cedric E. Ritchie
J. Spencer Lanthier	Michael L. Hepher	Diane E. McGarry	David W. Kerr	David W. Lay*	T. Iain Ronald
David W. Lay		Arthur R. A. Scace*	Cedric E. Ritchie*		Arthur R. A. Scace*
Diane E. McGarry		John D. Wetmore	T. Iain Ronald		
T. Iain Ronald*			Arthur R. A. Scace		
			John D. Wetmore		

*Committee Chairman

Summary of Attendance

The Directors of Canada Life Financial Corporation and The Canada Life Assurance Company hold Board and Committee meetings at the same time and in the same place; the one exception is the Special Committee.

For the period January 1–December 31, 2002	Board Meetings	Audit and Risk Management Committee	Conduct Review Committee	Corporate Governance Committee	Human Resources Committee	Pension Committee	Special Committee ⁴
William L. Acton (<i>Elected – Aug. 8, 2002</i>)	5 (of 5)						
James C. Alfano	15		2			5	
George S. Bain	13			4	8		
Angus A. Bruneau	15	6	2			4 (of 4) ¹	
Jean F. Chagnon (<i>Elected – Nov. 6, 2002</i>)	1 (of 4)						
John R. Hall	13				7		
Michael L. Hepher	15	3 (of 3) ¹	2				
Monique Jérôme-Forget (<i>Resigned – May 9, 2002</i>)	5 (of 5)	3 (of 3) ²					
David W. Kerr	14			3 (of 3) ¹	8		
J. Spencer Lanthier (<i>Elected – June 5, 2002</i>)	10 (of 11)	3 (of 3) ³					
David W. Lay	16	6				5	5
Harold H. MacKay ²	3 (of 5)			1 (of 1)		1 (of 1)	
Diane E. McGarry	14	5		3			
David A. Nield	16						
Robert T. F. Reid (<i>Elected – Sept. 4, 2002</i>)	4 (of 5)						
Cedric E. Ritchie	9				6		5
T. Iain Ronald	15	6			8		5
Arthur R. A. Scace	15			4	6		5
John D. Wetmore	16			3	5 (of 5) ¹		
Total Number of Meetings Held	16	6	2	4	8	5	5

¹ Joined the Committee on May 2, 2002.² Term ended on May 2, 2002.³ Mr. Lanthier joined the Audit and Risk Management Committee on June 5, 2002.⁴ The Board of Directors in early November, 2002 informally established a committee of the Board to consider and report to the Board on potential change of control issues. The establishment of the Special Committee was formally confirmed by the Board on December 13, 2002 with a mandate to review the Offer by Manulife Financial Corporation and any alternatives that may maximize value for Shareholders.

Subsidiary name	Jurisdiction of incorporation or continuance	Consolidated book value (in millions of Canadian dollars)
The Canada Life Assurance Company	Canada	\$ 3,957
Canada Life Capital Corporation Inc.	Canada	1,898
Canada Life International Holdings Limited	Bermuda	2,427
Canada Life Irish Holding Company Limited	Republic of Ireland	633
Canada Life Management Services Limited	Republic of Ireland	
Canada Life Assurance (Ireland) Limited	Republic of Ireland	478
F.S.D. Investments Limited	Republic of Ireland	
Canada Life Pension and Annuities (Ireland) Limited	Republic of Ireland	
Setanta Asset Management Limited	Republic of Ireland	5
Canada Life Assurance Europe Limited	Republic of Ireland	160
CLAI Limited	Republic of Ireland	
The Canada Life Assurance Company of Ireland Limited	Republic of Ireland	
Canada Life International Re Ltd.	Republic of Ireland	327
Canada Life Reinsurance International Ltd.	Bermuda	
Canada Life Insurance Company of Puerto Rico, Inc.	Puerto Rico	9
The Canada Life Group (U.K.) Limited	United Kingdom	1,458
CLFIS (U.K.) Limited	United Kingdom	
Copia Investors Limited	United Kingdom	6
Canada Life Trustee Services (U.K.) Limited	United Kingdom	
Copia Property Limited	United Kingdom	1
Canada Life Limited	United Kingdom	1,457
Canada Life (U.K.) Limited	United Kingdom	209
Albany Life Assurance Company Limited	United Kingdom	
Canada Life Management (U.K.) Limited	United Kingdom	14
Canada Life International Limited	Isle of Man	174
Canada Life Services (U.K.) Limited	United Kingdom	4
Canada Life Fund Managers (U.K.) Limited	United Kingdom	9
Canada Life Pension Managers & Trustees Limited	United Kingdom	
Canada Life Group Services (U.K.) Limited	United Kingdom	
Canada Life Holdings (U.K.) Limited	United Kingdom	
Canada Life Irish Operations Limited	United Kingdom	
Canada Life Ireland Holdings Limited	United Kingdom	
4073649 Canada Inc.	Canada	284
Canada Life Finance (U.K.) Limited	United Kingdom	10
CLH International Capital Management Hungary Limited Liability Company	Hungary	273
Canada Life Brasil LTDA.	Brazil	8
Canada Life Previdência e Seguros S.A.	Brazil	8
Canada Life Administradora de Benefícios Ltda. (99.9%)	Brazil	
Canada Life Capital Trust	Ontario	(5)
Canada Life Insurance Company of New York	United States	45
Canada Life Insurance Company of America	United States	250
Canada Life of America Financial Services, Inc.	United States	
CL Capital Management, Inc.	United States	
The Canada Life Insurance Company of Canada	Canada	130
Canada Life Financial Distribution Services Inc.	Canada	
CL Capital Management (Canada) Inc.	Canada	
Kanetix Ltd. (98%)	Canada	4
KTX Insurance Solutions Ltd. (99.9%)	Canada	
KTX Financial Ltd. (99.9%)	Canada	
Canada Life Securities Inc.	Canada	2
Canada Life Mortgage Services Ltd.	Canada	3
Classco Benefit Services Limited	Canada	
Canadian Worksite Marketing Group Inc.	Canada	(1)
587443 Ontario Inc.	Ontario	
Canada Life Securing Corporation Inc.	Ontario	
Adason Properties Limited	Canada	1
Adason Realty Ltd.	Canada	

¹ The Company indirectly owns 100% of the voting shares of each subsidiary through The Canada Life Assurance Company, unless otherwise noted.

² Laketon Investment Management Ltd. is 40% owned by the Company.

³ The Canada Life Assurance Company controls 100% of the Variable Rate Cumulative Preferred Series A and 100% of the 9% Junior Preferred Series A shares of Canada Life Mortgage Services Ltd.; 100% of the Non-Redeemable Junior Preferred shares of Adason Properties Limited; 100% of the 9% Redeemable Non-cumulative Preference shares of Canada Life Management (U.K.) Limited; and 100% of the preferred shares of Canada Life Previdência e Seguros S.A.

Corporate Address:

Canada Life Financial Corporation
330 University Avenue
Toronto, Ontario, Canada
M5G 1R8
Phone: 416 597 1456
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Corporate Secretary:

Roy Linden
Secretary
Phone: 416 597 1440 (extension 5134)
E-mail: roy_linden@canadalife.com

Investor Relations & Corporate Communications:

Brian Lynch
Vice-President,
Investor Relations and
Corporate Communications
Phone: 416 597 1440 (extension 6693) or
416 204 2381
E-mail: investor_relations@canadalife.com
Fax: 416 597 9876
Website: www.canadalife.com

Any inquiries other than change of address, shareholder dividends, lost certificates or change in registration of shares should be directed to Investor Relations. The Investor Relations page of our corporate site contains the Company's main financial information.

Divisional Addresses:

Canadian Division

330 University Avenue
Toronto, Ontario, Canada
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Internet: www.canadalife.co.uk

United States Division

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Phone: 770 953 1959
Internet: www.canadalifeus.com

Republic of Ireland Division

Canada Life House
Temple Road
Blackrock County, Dublin
Republic of Ireland
Phone: 353 1 210 2000
Internet: www.canadalife.ie

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330 University Avenue
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M5G 1R8
Phone: 416 597 1456
Internet: www.canadalife.com

**Change of address or
change in registration:**

Please write or call the Company's
transfer agent.

Transfer agent

Canada

Computershare Trust Company of Canada
100 University Avenue
11th Floor
Toronto, Ontario, M5J 1Y1
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United Kingdom

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The Pavilions, Bridgwater Road,
Bristol, England BS99 7DS
Phone: 0870 702 0164

United States

Computershare Investor Services, LLC
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Chicago, Illinois
United States 60690 3504
Phone: 1 888 284 9137

Republic of Ireland

Computershare Services (Ireland) Ltd.
Heron House, Corrig Road
Sandy Ford Industrial Estates
Dublin 18
Phone: 01 216 3100

Shareholder Dividends:

Shareholder dividends are payable at the
discretion of the Board of Directors.

Exchange Listings:

The Toronto Stock Exchange
Ticker symbol: CL
The New York Stock Exchange
Ticker symbol: CLU

Annual Meeting:

Shareholders are invited to attend our annual
meeting on Monday, June 23, 2003 at 10:30
a.m. at Canada Life, 330 University Avenue,
Toronto, Ontario, Canada.

Auditors:

Ernst & Young LLP

Design:

Bryan Mills Group

Photography:

Paul Orenstein Photography

Printing:

St. Joseph Printing



Canada Life™

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